ABOUT THE CONFERENCE BOARD

The Conference Board is a business information service whose purpose is to assist senior executives and other leaders in arriving at sound decisions. Since its founding in 1916, the Board has been creating close personal networks of leaders who exchange experience and judgment on significant issues in management practice, economics and public policy. The networks are supported by an international program of research and meetings which The Conference Board staff of more than 350 persons carries out from offices in New York, Ottawa and Brussels.

More than 3,600 organizations in over 50 nations participate in The Conference Board's work as Associates. The Board is a not-for-profit corporation and the greatest share of its financial support comes from business concerns, many with worldwide operations. The Board also has many Associates among labor unions, colleges and universities, government agencies, libraries and trade and professional associations.

The Conference Board, Inc.
845 Third Avenue
New York, New York 10022
(212) 759-0900
RCA International Telex
237282 and 234465

The Conference Board, Inc.
Avenue Louise, 207 - Bte 5
B-1050 Brussels, Belgium
(02) 640 62 40
Telex: 63635

The Conference Board, Inc.
1755 Massachusetts Avenue, N.W.
Suite 312
Washington, D.C. 20036
(202) 483-0580

The Conference Board of Canada
255 Smyth Road
Ottawa, Ontario K1H 8M7
(613) 526-3280

Conference Board Report No. 889 Printed in U.S.A.

© 1986 THE CONFERENCE BOARD, INC.

ISBN NO.:0-8237-0331-2

R4105-19

Top Executive Compensation
1987 Edition

(Data for this survey were collected in 1986 based on 1985 fiscal year corporate reports.)

by Charles A. Peck

A Research Report from The Conference Board

R4105-19

Top Executive Compensation 1987 Edition

(Data for this survey were collected in 1986 based on 1985 fiscal year corporate reports.)

by Charles A. Peck

A Research Report from The Conference Board

Contents

	Page
HIGHLIGHTS	vi
WHY THIS REPORT	ix
1. INTRODUCTION AND SUMMARY	1
Pay Trends	1
1985 Annual Bonus Awards	2
Restricted Stock Plans	2
Long-term Performance Plans	3
Stock Option Plans	4
1985 Grants and Gain at Exercise	4
Stock-for-Stock Exercise	5
Stock Appreciation Rights	6
Executive Pay and Company Size	6
Executive Pay Differentials	6
2. MANUFACTURING—SUMMARY	8
Pay Trends	8
1985 Total Compensation	9
1985 Salary	10
1985 Bonus Awards	11
Restricted Stock Plans	12
Long-term Performance Plans	13
Stock Option Plans	13
3. MANUFACTURING—INDIVIDUAL INDUSTRIES	16
Food and Kindred Products	16
Textiles	19
Paper and Allied Products	21
Printing and Publishing	23
Industrial Chemicals	25
Consumer Chemicals	27
Stone, Clay, Glass and Concrete Products	29
Primary Metals	31
Fabricated Metal Products (except Machinery and Transportation Equipment)	33
Machinery (except Electrical)	35
Electrical and Electronic Machinery, Equipment and Supplies	38
Transportation Equipment	40
4. RETAIL TRADE	42
Pay Trends	42
1985 Total Compensation	43
1985 Salary	44
1985 Bonus Awards	44
Long-term Incentive Plans	45

5. GAS AND ELECTRIC UTILITIES 47
Pay Trends 47
1985 Total Compensation 48
1985 Salary 49
1985 Bonus Awards 49
Long-term Incentive Plans 50

6. COMMERCIAL BANKING 51
Pay Trends 51
1985 Total Compensation 52
1985 Salary 53
1985 Bonus Awards 53
Long-term Incentive Plans 54

7. INSURANCE 56
Pay Trends 56
1985 Total Compensation 57
1985 Salary 58
1985 Bonus Awards 59
Long-term Incentive Plans 60

8. CONSTRUCTION 62
Pay Trends 62
1985 Total Compensation 63
1985 Salary 64
1985 Bonus Awards 65
Long-term Incentive Plans 65

9. DIVERSIFIED SERVICE 67
1985 Total Compensation 67
1985 Salary 67
1985 Bonus Awards 68
Long-term Incentive Plans 68

Author's Acknowledgment

Analytical programming was provided by Steven Gazis and data preparation by Lucy Siviglia and Angela Daly-Moyer under the direction of E. Kay Worrell, Director, Survey Research Center. Charts were prepared under the direction of Chuck N. Tow, Chief Chartist. Assistance with data analysis was provided by Ninez Arreglado.

Highlights

The 1985 compensation of the five highest paid executives in each of 883 companies in seven major types of businesses is analyzed in this report: manufacturing (404 companies), construction (51 companies), gas and electric utilities (86 companies), retail trade (52 companies), commercial banks (153 companies), insurance (114 companies), and, for the first time, diversified service (23 companies). The major focus is on 1985 total cash compensation and its two elements, base salary and bonus awards. Using this report, a company can compare the 1985 compensation of its top-paid executives with their counterparts in companies of similar size and type of business.

The report also describes the incidence of, and trends in, four important elements of the executive compensation package: annual bonus plans, long-term performance plans, stock option plans, and restricted stock. For stock options, the size of option grants during 1985 is shown, as well as the net gain for options exercised during 1985. For restricted stock plans, the size of grants during 1985 is described and the size of payouts during 1985 is given for long-term performance plans.

Pay Trends

Compared to 1984, 1985 total compensation (which includes bonus awards) was up by 12 percent in banking, by 10 percent in insurance, by 9 percent in retail trade, by 8 percent in utilities, by 5 percent in manufacturing, and by 4 percent in construction.

In banking and insurance, a larger proportion of companies paid an annual bonus in 1985 than in 1984. The 1985 bonus was higher as a percentage of salary than in 1984. Proportionately fewer bonuses were paid in 1985 in manufacturing, construction and utilities. The average 1985 bonus was lower than 1984 in all three industry groups. The same proportion paid a bonus in both years in retail trade, and the average award was almost the same.

In each type of business, base salaries increased in 1985. The median increase in banks and retail trade was 10 percent; in insurance, 9 percent; in manufacturing and utilities, 8 percent; and construction, 5 percent.

Estimates of the average salary increase for all exempt employees made in May, 1986, show a median increase of 6.0 percent for 1985, the same estimated for 1986 and 5.5 percent predicted for 1987.

Annual Bonus Plans

The increased use of annual bonus plans continues, especially among financial institutions: 82 percent of the banks and 68 percent of the insurance companies now have a plan. Gas and electric utilities, too, have continued to adopt an annual bonus: 48 percent have a plan. Plans are almost universal in manufacturing and diversified service. In both instances, 91 percent have a plan. Eighty-six percent of the retailers and 84 percent of the construction companies also have plans.

As in prior years, the size of the typical bonus award for CEO's, as a percentage of salary, is generally lowest among gas and electric utilities (26 percent); insurance (32 percent); and banks (35 percent). In retail trade, the median bonus award for chief executive officers is 40 percent of base salary; in construction, 41 percent; and in both manufacturing and diversified service, 50 percent. In general, the size of the bonus, as a percent of salary, tends to increase with company size.

Restricted Stock

A significant minority of companies in each type of business have a plan for awards of restricted stock to top executives: manufacturers, 28 percent; diversified service, 26 percent; publicly held construction companies, 25 percent; banking, 19 percent; stock insurance companies, 15 percent; retail trade, 14 percent; and gas and electric utilities, 7 percent.

Under a restricted stock plan, a company makes an outright award of shares, which are subject to forfeiture until "earned out" over a stipulated period of continued employment, usually three to five years.

During 1985, the median award to 307 of the five highest paid executives was the equivalent of 41 percent of salary.

Long-term Performance Plans

Much of the growth in long-term performance share- and performance-unit plans has taken place in the last seven years. However, they still are not very common outside of diversified service, where 52 percent of the firms have plans, and manufacturing, where 38 percent now have plans. In contrast, only 19 percent of the retailers, insurance companies and utilities have plans; 18 percent of the banks; and 8 percent of the construction companies.

In these plans, top executives are given a contingent award of shares or units at the beginning of a performance period; the final value of these awards is determined by how closely specified corporate financial targets are met during a three, four or five-year performance period.

During 1985, the median payment to 411 of the five highest paid executives was the equivalent of 29 percent of salary.

Stock Option Plans

Generally, there has been some increase in the proportion of companies with a stock option plan over the past few years: 82 percent of manufacturers have a plan, 73 percent of the retailers, 61 percent of the banks, 56 percent of the publicly held construction companies, 45 percent of the stock insurance companies, and 24 percent of the gas and electric utilities. All of the diversified service companies reported stock option plans in 1985.

The majority of companies with a plan provide for the grants of "incentive stock options" (ISO's): 55 to 96 percent of the plans use ISO's, depending on the type of business. In most of these companies, nonqualified options are granted as well as ISO's. The nonqualified options, however, are limited to those executives whose award was more than the $100,000 per-year limit on the value of ISO awards in many of the companies.

The value of stock option grants made in 1985 to the five top-paid executives as a group, on the average, was the equivalent of 54 to 90 percent of base salary, depending on the type of business. The median net gain for options exercised during 1985 was 58 percent of salary in banks, 45 percent in retail trade, 41 percent in stock insurance companies, and 39 percent in manufacturing.

Stock-for-stock exercise (stock swaps) of options are provided for in 33 to 80 percent of ISO plans, depending on the type of business, and in about the same proportion of nonqualified option plans.

Stock appreciation rights (SAR's) are provided by 30 to 60 percent of the ISO plans, depending on the type of business, and in about the same proportion of nonqualified option plans.

Why This Report

Today's corporation often has a complex and changing structure. Competition, decentralization and downsizing can all have wide-ranging effects on a company. Furthermore, because of mergers and acquisitions, a firm may be involved in multiple activities and locations, and provide a variety of goods and services. This situation is especially common in the important service sector, where new types of businesses are continually emerging. The twenty-fourth edition of The Conference Board's report on top executive pay recognizes the importance of these unique enterprises with the addition of a new industry category—Diversified Service. Useful information about salary, bonus and total compensation is presented for each of the five highest-paid executives in this group. Of course, we continue our valuable and thorough coverage of manufacturing, construction, gas and electric utilities, retail trade, commercial banks and insurance.

To allow executives to assess recent developments, the change in total compensation and base salary for 1985 is reported for the six continuing industry categories. Key elements of strategic compensation and pay-for-performance are also included: bonus plans, stock options, restricted stock awards and long-term performance plans.

Each year several hundred companies participate in the survey, making the publication of this report possible. We appreciate their contributions of time and effort to our research and thank them for their valuable assistance.

JAMES T. MILLS
President

Chapter 1

Introduction and Summary

THIS REPORT IS primarily an analysis of the 1985 compensation of the five highest paid executives in each of the companies described in the accompanying box. The major focus is on the basic elements of 1985 cash compensation: base salary and annual bonus awards. Total compensation, base salary, and bonus awards for 1985, are compared with 1984 in each type of business except diversified service, which was surveyed for the first time.

The report also describes the incidence of and trends in four important elements of the executive compensation package: annual bonus plans, long-term performance plans, stock options (and their associated "stock appreciation rights" and "stock swaps"), and restricted stock. For stock options, the size of option grants during 1985 is shown, as well as the net gain for options exercised during 1985. For restricted stock plans, the size of grants during 1985 is described, and for long-term performance plans, the size of payouts during 1985 is shown.

About the Companies

This study is based on information obtained from 883 companies in seven major types of business in the United States. These companies represent only specific segments of their respective types of business, however.

- The 404 **manufacturers** include 36 percent of the manufacturers with $100 million or more in sales whose stock is listed on the New York or the American Stock Exchange.
- The 86 **gas and electric utilities** are 62 percent of all gas and electric utilities whose securities are listed on the New York or American Stock Exchange.
- The 52 **retailers** include 15 percent of approximately all retailers with sales of $50 million or more.
- The 153 **commercial banks** are 36 percent of approximately all commercial banks with total deposits of $300 million or more.
- The 114 **insurance companies** are 35 percent of approximately all life insurance and property and casualty insurance companies with total premium income of $50 million or more.
- The 51 **construction companies** represent 26 percent of the 200 largest contractors: 16 are publicly held and 35 do not have stock traded on an organized exchange.
- The **diversified service companies** represent 23 of the 100 largest.

Pay Trends

Total compensation (which includes bonus awards) was 4 to 12 percent higher than in 1984 for each type of business. This is illustrated below, using the median change for the chief executive officer *position* in companies for which total compensation data were available for both 1985 and 1984. (The individuals were not necessarily the same in both years in all companies.)

	Total Compensation Increase		
	1985		*1984*
Type of Business	*Number of Companies*	*Median*	*Median*
Commercial banking	97	12%	14%
Insurance	90	10	10
Retail trade	42	9	8
Gas and electric utilities	74	8	11
Manufacturing	318	5	11
Construction	36	4	7

When the 1985-1984 change is compared with that for 1984 over 1983, the biggest change was in manufacturing, where total compensation increased only 5 percent after showing an 11 percent increase for 1984. Increases for 1985 were also lower than those for 1984 among banks, utilities and construction companies, the same for insurance and slightly more in retail trade.

Some of the increase in total compensation is related to the prevalence of bonus payments. For example, more banks and insurance companies paid a bonus for 1985 than in 1984. However, relatively fewer manufacturers, construction companies, and utilities paid a bonus for 1985 than for 1984. The same proportion of retailers and diversified service firms paid a bonus in both years.

		Percent that Paid Bonus	
Type of Business	*Number of Companies*	*1985*	*1984*
Diversified service	23	83%	83%
Manufacturing	404	78	81
Commercial banking	153	75	72
Retail trade	52	69	69
Construction	51	63	65
Insurance	114	58	55
Gas and electric utilities	86	31	34

In addition to the incidence of bonus payments, the size of the award has an impact on total compensation. In those cases where the same company paid a bonus in both years, the 1985 bonus award as a percentage of salary was higher, except in construction, where it was unchanged and in utilities where there was a 1-percent decrease in 1985 over 1984.

The other element in total compensation is base salary. Overall, 1985 salaries were 5 to 10 percent higher than in 1984. This is illustrated below, using the median increase for the chief executive officer *position* in companies for which salary data were available for both 1985 and 1984. (The individuals were not necessarily the same in both years in all companies.)

	Base Salary Increase		
	1985		1984
Type of Business	Number of Companies	Median	Median
Retail trade	41	10%	10%
Commercial banking	97	10	9
Insurance	89	9	10
Manufacturing	316	8	8
Gas and electric utilties	74	8	11
Construction	36	5	5

Generally, the rate of salary increase is either the same or lower for 1985 than for 1984. From 1980 through 1983 there had been a trend toward a lower rate of salary increase. This changed in 1984 when the rates of increase were higher. Now, there appears to be a shift back to the earlier pattern.

As an indicator of future salary increases, companies were asked during May, 1986 to provide the "average salary increase" for their total exempt population (not just for "executives") for 1985 and the expected increase for 1986 and 1987. The responses are shown in Table 1.

1985 Annual Bonus Awards

The trend to increased use of annual bonus plans during the 1970's has continued during the past few years. Bonus plans are almost universal in manufacturing, diversified service, and construction and have continued to grow in retail trade, gas and electric utilities, commercial banking, and insurance, as shown below.

	May, 1986		May, 1982
Type of Business	Total Companies	Percent with Bonus Plan	Percent with Bonus Plan
Diversified service	23	91%	No Data
Manufacturing	404	91	94%
Retail trade	52	86	76
Construction	51	84	90
Commercial banking	153	82	67
Insurance	114	68	66
Gas and electric utilities	86	48	22

The majority of companies with a bonus plan made awards for 1985 performance, as shown below.

		Percent that Paid Bonus	
Type of Business	Total Plans	1985	1984
Diversified service	21	91%	91%
Commercial banking	126	91	87
Manufacturing	368	85	89
Insurance	78	85	81
Retail trade	45	80	80
Construction	43	74	77
Gas and electric utilities	41	66	71

Among the companies that paid a bonus, the size of the award, as a percentage of salary, was lower for 1985 performance than for 1984, except for insurance and banking, as illustrated below for chief executive officers:

	Median Award for 1985		
Type of Business	Number of CEO's	Percentage of Salary	1984 Median
Diversified service	19	50%	No Data
Manufacturing	310	50	56%
Construction	31	41	45
Retail trade	34	40	41
Commercial banking	113	35	34
Insurance	64	32	25
Gas and electric utilities	25	26	30

Among manufacturers, banks, insurance companies, and retailers, the bonus awards tend to increase as a percentage of salary as the size of the company increases. Data were not adequate to check this in construction, utilities, and diversified service.

Restricted Stock Plans

As shown below, a relatively small group of companies in each major type of business provide for grants of restricted stock.

	May, 1986		May, 1982
Type of Business	Total Companies	Percent with Restricted Stock	Percent with Restricted Stock
Manufacturing	404	28%	25%
Diversified service	23	26	No Data
Construction: traded	16	25	35
Commercial banking	153	19	13
Insurance: stock	62	15	16
Retail trade	52	14	22
Gas and electric utilities	86	7	6

Under a restricted stock plan, a company makes an outright award of shares to participating executives subject to certain restrictions, the most important of which is that

Table 1: Average Salary Increase for Exempt Employees: 1985, 1986, and 1987

Type of Business	Actual for 1985			Estimate for 1986			Estimate for 1987		
	Number of Companies	Median	Middle 50 Percent Range	Number of Companies	Median	Middle 50 Percent Range	Number of Companies	Median	Middle 50 Percent Range
Commercial banking	140	7.0%	6.0 to 7.5%	135	6.0%	5.8 to 7.0%	106	6.0%	5.5 to 6.5%
Insurance	108	6.5	6.0 to 7.0	106	6.0	6.0 to 7.0	70	6.0	5.5 to 6.5
Retail trade	48	6.0	5.0 to 7.0	49	5.5	5.0 to 6.0	42	5.0	4.5 to 6.0
Manufacturing	372	6.0	5.1 to 6.8	360	5.5	5.0 to 6.5	281	5.0	5.0 to 6.0
Gas and electric utilities	78	6.0	5.3 to 6.3	68	5.5	4.5 to 6.0	32	5.0	4.0 to 5.9
Diversified service	22	6.0	6.0 to 7.0	22	5.5	5.0 to 6.0	16	5.0	5.0 to 6.0
Construction	47	5.0	4.5 to 6.0	43	5.0	4.0 to 6.0	41	5.0	4.0 to 5.5
Total companies	815	6.0	5.5 to 7.0	783	6.0	5.0 to 6.3	588	5.5	5.0 to 6.0

shares are subject to forfeiture until they are "earned out" over a stipulated period of continued employment. This vesting period is generally three to five years.[1]

A small group of companies (77) made restricted stock grants to one or more of their five top-paid executives during 1985. (Included are fifty-five manufacturers, ten banks, two retailers, four stock insurance companies, two utilities, one publicly held construction firm, and three diversified service companies.) The size of the grants for 307 executives, converted to a percentage of their 1985 base salary, is shown below.

Grant as Percentage of Salary	Executives	
	Number	Percentage
200% or more	36	12%
100–199	34	11
80–99	19	6
60–79	23	8
50–59	13	4
40–49	33	11
30–39	34	11
20–29	56	18
10–19	45	15
Less than 10%	14	5
Total	307	100%

The value of the median grant is the equivalent of 41 percent of salary, with the middle half ranging between 23 and 90 percent of 1985 base salary.

Long-term Performance Plans

In recent years, some companies have adopted executive incentive plans in which the payment is based on the attainment of specified *long-term* corporate financial performance goals, in contradistinction to the annual bonus plans that are based on a single year's corporate performance. These plans are generally known as performance share, or unit, plans. In these plans, top executives are given a contingent award of company shares or, more commonly, of performance units at the beginning of a performance period. The actual value of the award is determined by how closely specified corporate financial performance objectives (usually growth in earnings per share) are met during the performance period of the next three, four or five years.[2] Although the first of these plans was installed in 1971- 1972, growth apparently has continued during the last four years, as illustrated below.[3]

Type of Business	May, 1986		May, 1982
	Total Companies	Percent with Performance Plan	Percent with Performance Plan
Diversified service	23	52%	No Data
Manufacturing	404	38	32%
Retail trade	52	19	16
Insurance	114	19	17
Gas and electric utilities	86	19	3
Commercial banking	153	18	15
Construction	51	8	5

The plans are still not common outside of manufacturing and diversified service. In each type of business, they are generally found among the largest companies.

A small group of companies (98) made a payment under this type of plan during 1985 to one or more of their five top-paid executives. (Included are sixty manufacturers, eleven banks, twelve insurance companies, five retailers, six

[1]For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

[2]For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[3]*Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980.

utilities, and four diversified service companies.) The payments to 411 executives are shown below, converted to a percentage of their 1985 base salary.

Payment as Percent of Salary	Executives	
	Number	Percent
100% and over	35	9%
70-99	35	9
60-69	18	4
50-59	25	6
40-49	36	9
30-39	49	12
20-29	77	19
10-19	103	25
Less than 10%	33	8
Total	411	100%

The median payment is the equivalent of 29 percent of 1985 salary, with the middle half ranging between 16 and 54 percent of salary.

Stock Option Plans

The Economic Recovery Tax Act of 1981 created a statutory stock option, the "incentive stock option" (ISO).[4] Companies now have a choice among incentive stock options, nonqualified (nonstatutory) options or a combination of the two.

As the tabulation below illustrates, there has been some growth in the adoption of stock option plans since 1982.

Type of Business	May, 1986			May, 1982
	Total Companies	With Stock Option Plan		Percent with Stock Option Plan
		Number	Percent	
Diversified service	23	23	100%	No Data
Manufacturing	404	330	82	81%
Retail trade	52	38	73	65
Commercial banking	153	94	61	43
Construction: traded	16	9	56	57
Insurance: stock	62	28	45	39
Gas and electric utilities	86	21	24	20

Generally, the majority of companies with a stock option plan provide for the grant of *both* nonqualified options and ISO's. Relatively few companies have only an ISO plan and fewer still, only a nonqualified plan, as shown here.

[4]For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Type of Business	Total Plans	Percent of Plans by Type of Options		
		Both ISO and Nonqualified	Only ISO	Only Nonqualified
Diversified service	23	78%	9%	13%
Commercial banking	94	78	18	4
Manufacturing	330	77	11	10
Gas and electric utilities	21	71	24	5
Insurance: stock	28	61	25	14
Retail trade	38	58	29	13
Construction: traded	9	33	22	44

1985 Grants and Gain at Exercise

Among the companies that have a stock option plan, 44 to 79 percent made a regular grant of options during 1985, as shown below:

Type of Business	Companies with Stock Option Plan	Granted Options in 1985	
		Number	Percent
Insurance: stock	28	22	79%
Diversified service	23	18	78
Manufacturing	330	215	65
Commercial banking	94	56	60
Retail trade	38	22	58
Gas and electric utilities	21	12	57
Construction: traded	9	4	44

A sizable proportion of the companies in each type of business granted *both* ISO's and nonqualified options during 1985 (Table 2). However, as shown below, in most cases the nonqualified option was given only to those executives who hit the statutory limit on the size of ISO grants (the value of an individual award cannot exceed $100,000 per calendar year).

Type of Business	Granted Both ISO's and Nonqualified Options	Nonqualified Only Above ISO Limit	
		Number	Percent
Commercial banking	36	31	86%
Diversified service	11	8	73
Manufacturing	122	85	70
Insurance: stock	9	6	67
Gas and electric utilities	5	3	60
Retail trade	10	5	50
Construction: traded	1	0	0

Most of the companies that made a regular grant of options during 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of the option is the number of shares

Table 2: 1985 Stock Option Grants by Type of Option

Type of Business	Total Responses	Type of Option Granted: Both ISO and Nonqualified Number	Both ISO and Nonqualified Percent	ISO Only Number	ISO Only Percent	Nonqualified Only Number	Nonqualified Only Percent
Manufacturing	210	122	58%	43	21%	45	21%
Commercial banking	56	36	64	15	27	5	9
Insurance: stock	22	9	41	11	50	2	9
Retail trade	21	10	48	6	29	5	24
Diversified service	18	11	61	1	6	6	33
Gas and electric utilities	12	5	42	5	42	2	17
Construction: traded	4	1	25	2	50	1	25

Table 3: Net Gain on Stock Options Exercised in 1985

Type of Business	Number of Companies	Number of Executives	Gain at Exercise: Dollars Median	Dollars Middle 50 Percent Range	Percent of Salary Median	Percent of Salary Middle 50 Percent Range
Manufacturing	162	484	$102,000	$44,000 to $269,000	39	17% to 97%
Retail trade	14	43	172,000	39,000 to 367,000	45	to 106
Commercial banking	40	124	108,000	55,000 to 240,000	58	o 123
Insurance: stock	11	29	104,000	46,000 to 182,000	41	27 87

granted multiplied by the market price at the time of grant.) The size of the grants is shown below, converted to a percentage of base salary, for all five top-paid executives combined.

Type of Business	Number of Executives	Size of Grant (Percent of Salary) Median	Middle 50 Percent Range
Retail trade	83	90%	43% to 128%
Manufacturing	953	88	53 to 168
Diversified service	78	87	58 to 137
Commercial banking	229	86	52 to 135
Gas and electric utilities	41	79	55 to 94
Construction: traded	20	71	28 to 90
Insurance: stock	79	54	38 to 115

One or more of the five top-paid executives in each type of business exercised a stock option (or SAR) during 1985. The net gain realized in cash or stock (market value less option price) is shown in Table 3 in terms of the dollar gain and as a percentage of 1985 base salary.

Stock-for-Stock Exercise

A substantial proportion of the companies that have stock option plans provide for stock-for-stock exercise (stock swaps). This arrangement allows options to be exercised with shares of previously purchased company stock in lieu of cash, a procedure that postpones the taxation of any gain on stock already owned. The proportion of ISO's with this provision is shown here.

Type of Business	ISO Plans	With Stock Swap Number	With Stock Swap Percent
Construction: traded	5	4	80%
Manufacturing	290	208	72
Diversified service	20	14	70
Commercial banking	90	62	69
Retail trade	33	19	58
Gas and electric utilities	20	9	45
Insurance: stock	24	8	33

The proportion of nonqualified option plans that provide for stock swaps is essentially the same as for ISO plans:

Type of Business	Nonqualified Options	With Stock Swap Number	With Stock Swap Percent
Manufacturing	286	202	71%
Commercial banking	77	55	71
Diversified service	21	13	62
Retail trade	27	16	59
Construction: traded	7	4	57
Gas and electric utilities	16	8	50
Insurance: stock	21	9	43

Stock Appreciation Rights

A substantial proportion of the companies also attach stock appreciation rights (SAR's) to the option. The SAR allows an executive to relinquish the option and receive an amount equal to the appreciation in the stock since the date of grant. The gain is taxed as ordinary income at the time it is received. Under an ISO, an executive could otherwise exercise the option without tax at the time, but the SAR allows the executive to take the gain without borrowing money to take the option. The prevalence of SAR's among ISO plans is shown below:

Type of Business	ISO Plans	With SAR Number	With SAR Percent
Construction: traded	5	3	60%
Insurance: stock	24	11	46
Gas and electric utilities	20	9	45
Commercial banking	90	37	41
Diversified service	20	7	35
Manufacturing	290	99	34
Retail trade	33	10	30

In most plans, the SAR is not given to all ISO recipients; rather, SAR's are limited to options granted to a small group of top executives (often, "insiders"). For example, 68 percent of the ISO plans in manufacturing that grant SAR's limit them to a small group. (This apparently is true in other types of business, but the number of cases is too small to judge.)

Generally, a slightly higher proportion of companies that have nonqualified stock option plans attach SAR's to the options, as shown here.

Type of Business	Nonqualified Options	With SAR Number	With SAR Percent
Gas and electric utilities	16	11	69%
Manufacturing	286	151	53
Insurance: stock	21	11	52
Commercial banking	77	38	49
Diversified service	21	9	43
Retail trade	27	11	41
Construction: traded	7	2	29

Again, the SAR is not given to all nonqualified-option recipients. For example, among the manufacturers, 71 percent of the nonqualified plans with SAR's limit the SAR to a small group of top executives.

Executive Pay and Company Size

As a rule, top executives in larger companies are paid more than their counterparts in smaller companies. It is generally accepted that this is a cause-and-effect relationship: The chief executive officer of a large company is paid more than a CEO in a small company in part because the job is more difficult and demanding.

In this study, major emphasis is given to this relationship between top-executive pay and company size. For example, the total compensation (base salary plus bonus award) of the chief executive officers in each type of business is shown on a chart similar to Exhibit 1 on page 7.

- Each circle on a chart shows the total compensation paid to the chief executive officer by a single company. Those executives whose total compensation includes a bonus award are differentiated by an open circle (O). When total compensation does not include a bonus, a solid circle (•) is used.
- The regression line on a chart measures the general relationship between total compensation and company size. The line can be used to determine average compensation of chief executives at any level of company size by taking a direct reading from the chart, or by using the formula given for each line.

Although total compensation and company size are highly related, company size obviously is not the sole determinant of top executive compensation. To underline this point, the "coefficient of determination" is given for each regression line. This is the ratio of the variation in total compensation explained by the regression line to the total variation in pay. (The square root of this coefficient is the more familiar correlation coefficient.)

As the tabulation below, using pay of the CEO, indicates, this coefficient of determination varies considerably from one type of business to another. For example, for the relatively small construction companies whose stock is not traded, only 5 percent of the variation in total compensation of chief executive officers is accounted for by the variation in company size, and only 32 percent in the few companies (16) whose stock is traded. But for the majority of businesses, approximately half of the variation in chief executive pay, whether total compensation or base salary, is statistically explained by the variations in company size.

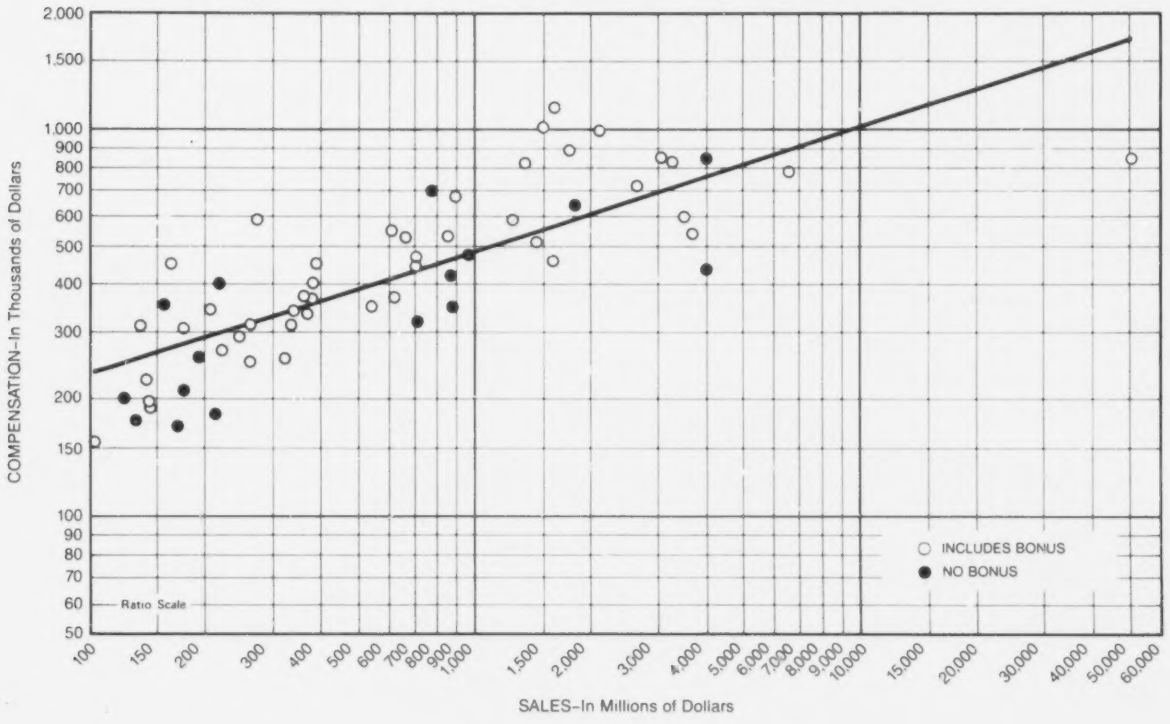
Type of Business	Coefficient of Determination: Total Compensation	Coefficient of Determination: Base Salary
Commercial banking	66%	60%
Manufacturing	64	66
Life insurance	63	57
Gas and electric utilities	56	58
Retail trade	55	58
Property and casualty insurance	46	54
Diversified service	37	61
Construction: traded	32	26
Construction: not traded	5	14

It might be noted that the coefficients of determination are generally somewhat higher for the other four executives; that is, their pay is more influenced by company size. Generally, the coefficients are 2 to 16 percentage points higher, than that of the CEO, depending on the type of business.

Executive Pay Differentials

Although average pay levels for each of the five top-paid executives vary considerably from one type of business to

Exhibit 1: Compensation of the Chief Executive Officer, by Company Sales



another, the relationships among the pay of the five executives differ very little among the major types of business. For example, the second highest paid executive typically receives 67 to 78 percent of the chief executive's total compensation, as the tabulation below illustrates.

	Median Ratio: Total Compensation as a Percentage of CEO Total Compensation			
Type of Business	*Second highest*	*Third highest*	*Fourth highest*	*Fifth highest*
Construction	78%	60%	52%	47%
Retail trade	74	55	46	40
Gas and electric utilities	69	56	49	43
Manufacturing	68	54	48	42
Commercial banking	68	52	46	40
Diversified service	68	54	45	42
Insurance	67	53	47	44

Salary ratios among the five top-paid are essentially the same as total compensation ratios:

	Median Ratio: Salary as a Percentage of CEO Salary			
Type of Business	*Second highest*	*Third highest*	*Fourth highest*	*Fifth highest*
Construction	78%	61%	59%	51%
Retail trade	71	61	47	44
Commercial banking	70	54	46	42
Manufacturing	69	56	50	45
Gas and electric utilities	69	56	49	44
Insurance	68	54	49	45
Diversified service	68	60	45	44

Chapter 2
Manufacturing—Summary

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 404 manufacturers, 36 percent of the manufacturers with $100 million or more in sales whose stock is listed on the New York or American Stock Exchange. These 404 manufacturers are classified below on the basis of 1985 sales volume.

	Companies	
1985 Sales	*Number*	*Percent*
$5 billion and over	55	14%
2–4,999 billion	74	18
1–1,999 billion	50	12
500–999 million	81	20
300–499 million	56	14
200–299 million	39	10
100–199 million	49	12
Total	404	100%

Median sales for the group is $800 million, with the middle half ranging between $325 million and $2.9 billion.

Pay Trends

On the average, total compensation for 1985 (which includes bonus awards) was about 5 percent greater than in 1984 for top executives in these manufacturing industries. For example, in a sample of 318 chief executive officers in companies for which total compensation for both 1984 and 1985 was available, the median change in total compensation was 5 percent, with the middle half ranging from a decrease of 6 percent to an increase of 15 percent.

For 32 percent of these chief executive officer positions, total compensation for 1985 was lower than for 1984, and another 5 percent registered no gain. Among the 63 percent that show an increase, the median increase is 12 percent, with the middle half ranging between 6 and 23 percent.

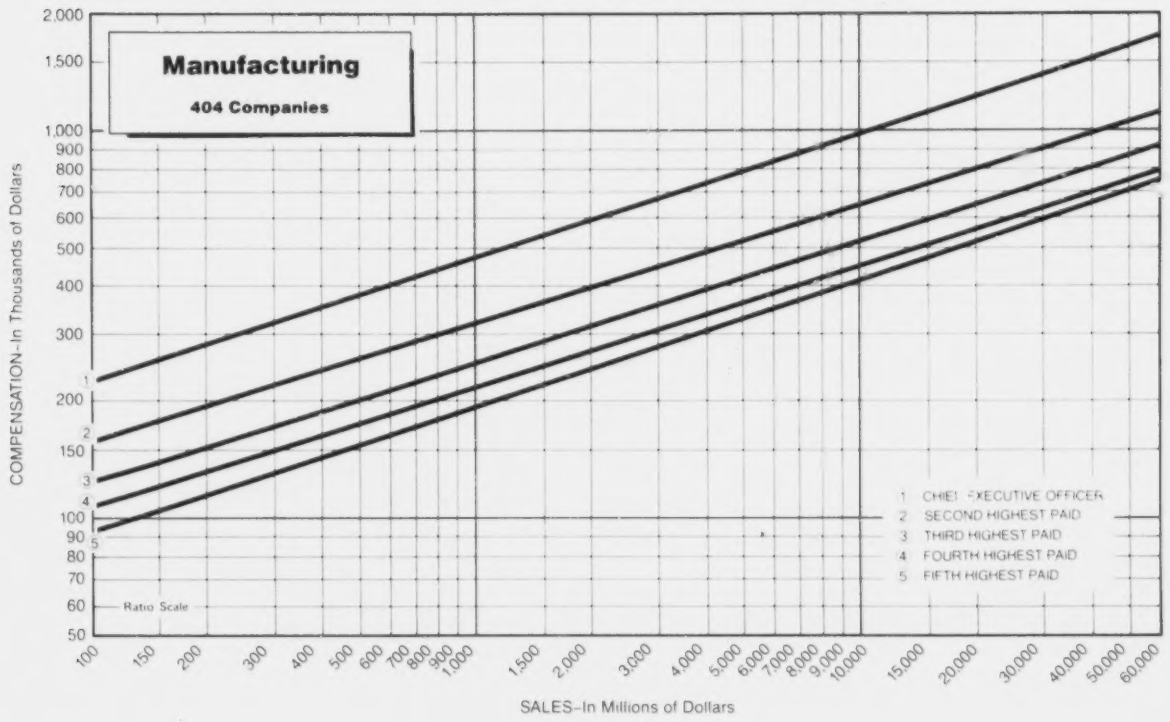
There were fewer bonuses paid in 1985 than in 1984; 85 percent of the manufacturers with a bonus plan paid a bonus for 1985 performance, while 89 percent did so for 1984 performance. In addition, bonus payments were lower as a percentage of base salary. For example, the median bonus for chief executive officers represented 50 percent of salary for 1985 and 56 percent of salary for 1984 performance. However, among companies that paid a bonus for both 1985 and 1984, the median bonus for chief executive officers increased 5 percent, with the middle half ranging between a decrease of 22 percent and a 26 percent increase. Among the 55 percent who got a larger bonus, the median increase was 21 percent, with the middle half ranging between 9 and 58 percent.

Total compensation increased mainly because of increases in base salary. For example, among the 316 companies for which both 1985 and 1984 base salary were available, the median increase for the chief executive position was 8 percent, with the middle half ranging between an under 1 percent, and a 12-percent increase. For 11 percent of these chief executive positions, salary was lower in 1985 than in 1984, and for 13 percent it was unchanged. Among the 76 percent that received an increase, the median is 10 percent, with the middle half between 7 and 14 percent.

As indicated below, the 8-percent salary increase for 1985 is the same as for 1984 and higher than the preceding year.[1] It is also higher than the 6-percent average increase in 1985 for all exempt employees. Average salary increases for the total exempt population are expected to decline to 5.5 percent in 1986 and to 5.0 percent in 1987.

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition.* The Conference Board, Report No. 875, 1985, p. 9. The 1983 changes are from *Top Executive Compensation 1985 Edition.* The Conference Board, Report No. 854, 1984, p. 48. The 1982 changes are from *Top Executive Compensation 1983 Edition.* The Conference Board, Report No. 840, 1983, p. 7. The 1979–1981 changes are from *Top Executive Compensation 1982 Edition.* The Conference Board, Report No. 827, 1982, p. 11. The 1977–1979 changes are from *Top Executive Compensation 1980 Edition.* The Conference Board, Report No. 793, 1980, p. 14.

Chart 1: Compensation of the Five Highest Paid Executives, by Company Sales



Year	Number of Companies	Percentage Increase in Salary: Median	Percentage Increase in Salary: Middle 50 Percent Range
Total Exempt Employees			
1987 Estimate	281	5.0%	5.0% to 6.0%
1986 Estimate	360	5.5	5.0 to 6.5
1985 Actual	372	6.0	5.1 to 6.8
Chief Executive			
1985	316	8	Under 1 to 12
1984	387	8	2 to 13
1982-1983	375	7	0 to 13
1981–1982	392	9	0 to 15
1979–1981	323	24	16 to 33
1977–1979	388	20	10 to 29

1985 Total Compensation

For each manufacturer, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The median and middle 50-percent range of the total compensation of the chief executive officers and the other four executives are shown below:

Compensation Rank	1985 Total Compensation: Median	1985 Total Compensation: Middle 50 Percent Range
Highest paid	$451,000	$311,000 to $724,000
Second	300,000	208,000 to 455,000
Third	243,000	170,000 to 372,000
Fourth	214,000	149,000 to 319,000
Fifth	183,000	129,000 to 287,000

As the lines in Chart 1 suggest, there is a positive relationship between the level of total compensation and sales volume for all five executives. The correlation coefficients for the five lines are, respectively: .80, .80, .82, .83, and .84.

The regression lines on the chart can be used to determine the average compensation of an executive at any level of sales, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.7468 + 0.3076 log X	64%
Second	log Y = 1.5725 + 0.3076 log X	64
Third	log Y = 1.4615 + 0.3136 log X	67
Fourth	log Y = 1.4043 + 0.3132 log X	69
Fifth	log Y = 1.3226 + 0.3226 log X	71

Although total compensation and sales are highly related, company size is not the sole determinant of compensation level. As the "coefficients of determination" (r^2) above indicate, the variation in sales statistically explains 64 to 71 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The tabulation below of the total compensation of chief executive officers indicates that this coefficient of determination varies considerably among the 12 specific manufacturing industries.

Industry	*Coefficient of Determination (Chief Executive Officers)*
Electrical machinery	78%
Food	75
Consumer chemicals	70
Stone, clay and glass	68
Transportation equipment	67
Industrial chemicals	65
All Manufacturers	**64%**
Machinery	64
Printing and publishing	53
Paper	52
Primary metals	39
Fabricated metals	28
Textiles	20

As a rule, the coefficient of determination is higher for the other four executives.

There are substantial differences from one industry to another in the average total compensation of each of the five top-paid executives, even when sales volume is not taken into consideration. This is illustrated in the tabulation below, which shows average total compensation of chief executive officers, by industry, at sales of $800 million, the median sales volume for all manufacturers. (These averages are derived from the regression equations for each industry.)

Industry	*Total Compensation (Chief Executive Officers)*
Consumer chemicals	$531,000
Printing and publishing	498,000
Transportation equipment	479,000
Fabricated metals	458,000
Machinery	454,000
All Manufacturers	**436,000**
Electrical machinery	427,000
Industrial chemicals	418,000
Food	410,000
Stone, clay and glass	403,000
Paper	386,000
Primary metals	383,000
Textiles	375,000

The highest industry average above is 42 percent greater than the lowest; in 1984 this spread was 35 percent and in 1983, 39 percent.

The ratio of the total compensation of each executive to that of the CEO is shown below:

Compensation Rank	*Total Compensation as a Percentage of Chief Executive's Total Compensation*	
	Median	*Middle 50 Percent Range*
Second highest	68%	59% to 77%
Third highest	54	46 to 63
Fourth highest	48	40 to 55
Fifth highest	42	36 to 49

1985 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is sales stated in *millions* of dollars.)

Compensation Rank	*Regression Formula*	r^2
Highest paid	$\log Y = 1.7617 + 0.2550 \log X$	66%
Second	$\log Y = 1.5924 + 0.2555 \log X$	62
Third	$\log Y = 1.4792 + 0.2639 \log X$	66
Fourth	$\log Y = 1.4345 + 0.2615 \log X$	68
Fifth	$\log Y = 1.3725 + 0.2664 \log X$	70

As the coefficients of determination (r^2) above indicate, the variation in sales volume statistically explains 62 to 70 percent of the variation in base salary.

The coefficient of determination varies considerably for the base salary of CEO's among 12 specific manufacturing industries:

Industry	*Coefficient of Determination (Chief Executive Officers)*
Electrical machinery	82%
Food	79
Primary metals	76
Industrial chemicals	74
Transportation equipment	69
All Manufacturers	**66%**
Stone, clay and glass	65
Machinery	59
Consumer chemicals	59
Printing and publishing	56
Paper	52
Fabricated metals	37
Textiles	18

There is relatively little difference in average base salary of each of the five top-paid executives from one industry to another, when sales volume is not taken into considera-

tion. This is illustrated below, using the average salary of chief executive officers in each industry at sales of $800 million, the median sales volume of all manufacturers. (These averages are derived from the regression equations for each industry.) The highest average base salary is only 28 percent greater than the lowest.

Industry	Base Salary (Chief Executive Officers)
Consumer chemicals	$377,000
Machinery	343,000
Printing and publishing	335,000
Paper	323,000
All Manufacturers	**318,000**
Electrical machinery	313,000
Industrial chemicals	313,000
Fabricated Metals	310,000
Transportation equipment	309,000
Food	306,000
Primary metals	306,000
Textiles	301,000
Stone, clay and glass	295,000

The ratio of the salary of each of the other top-paid executives to the salary of the chief executive officer is shown below.

	Salary as a Percentage of Chief Executive's Salary	
Compensation Rank	Median	Middle 50 Percent Range
Second highest	69%	60% to 78%
Third highest	56	49 to 65
Fourth highest	50	42 to 58
Fifth highest	45	38 to 52

These ratios are practically the same as the total compensation ratios.

1985 Bonus Awards

Ninety-one percent (368) of the 404 manufacturers have an "annual" executive bonus plan; that is, a plan that pays a year-end bonus based on that year's corporate performance. The incidence of these plans varies somewhat from industry to industry, but at least 81 percent of the companies in any manufacturing industry have a plan. There is no consistent relationship between company size and the prevalence of these plans: Better than 90 percent of the companies at any sales level have a plan.

There has been considerable growth in the prevalence of these plans over the last twelve years. In 1974, 75 percent of a comparable group of manufacturers reported an annual bonus plan.[2] By 1980, 90 percent did so.[3]

Among the 368 manufacturers with a bonus plan, 85 percent (313) made an award for 1985 performance; 89 percent paid a bonus for 1984. Among the 313 companies that paid a 1985 bonus, 295 also paid a 1984 bonus, but 18 did not. Among the 55 companies that reported no bonus for 1985, 34 paid a 1984 bonus; 15 paid no bonus in either year, and 6 did not respond.

By and large, the proportion of companies in the specific manufacturing industries that paid a bonus for 1985 performance is equal to or less than the percentage that paid a 1984 bonus, as shown below.

Industry	Total with Bonus Plan	Paid Bonus for 1985 Number	Paid Bonus for 1985 Percent	Paid Bonus for 1984 Percent
Printing and publishing	16	16	100%	100%
Consumer chemicals	19	18	95	95
Fabricated metals	18	17	94	83
Stone, clay and glass	17	16	94	94
Transportation equipment	29	27	93	100
Food	33	29	88	88
Industrial chemicals	38	33	87	95
All Manufacturers	**368**	**313**	**85**	**89%**
Electrical machinery	40	33	83	90
Machinery	55	44	80	82
Paper	17	13	77	88
Primary metals	24	18	75	75
Textiles	16	8	50	75

As Table 4 (p. 12) indicates, the median award for CEO's (50 percent of salary) is somewhat higher than that for the other four executives (46 to 37 percent of salary). Compared to bonus awards for 1984, the 1985 medians are 3 to 6 percentage points lower.[4]

[2] *Top Executive Compensation 1974 Edition* (out of print). The Conference Board, Report No. 640, 1974, p. 9.

[3] *Top Executive Compensation 1980 Edition*, p. 11.

[4] *Top Executive Compensation 1986 Edition*, p. 12.

Table 4: 1985 Bonus Awards and 1984 Median Bonus

1985 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% or more	28	9%	20	6%	19	6%	15	5%	15	5%
90–99	13	4	7	2	8	3	3	1	6	2
80–89	19	6	10	3	13	4	9	3	8	3
70–79	19	6	23	7	16	5	20	6	11	4
60–69	39	13	27	9	18	6	14	5	22	7
50–59	42	14	49	16	43	14	39	13	35	11
40–49	36	12	51	16	44	14	45	14	38	12
30–39	37	12	48	15	58	19	70	22	70	23
20–29	38	12	34	11	38	12	38	12	55	18
10–19	27	9	29	9	32	10	40	13	35	11
Less than 10%	12	4	14	5	22	7	19	6	14	5
Total	310	100%	312	100%	311	100%	312	100%	309	100%
Median Bonus	50%		46%		41%		38%		37%	
Middle 50% Range	30–70%		30–64%		26–59%		26–55%		26–53%	
1984 Median Bonus	**56%**		**50%**		**46%**		**43%**		**40%**	

For each of the five executives, the bonus award as a percentage of salary increases with company size (Table 5, p. 13).[5] Again, the 1985 awards at each level are lower than in 1984.[6]

Restricted Stock Plans

Twenty-eight percent (112) of the manufacturers have restricted stock plans under which contingent grants of company stock are made, subject to restrictions and forfeitures until earned out by continued employment over a specified period of time. The use of restricted stock has increased slightly in the past four years; 25 percent (133) of a comparable group of (531) manufacturers reported a plan in 1982.[7]

The prevalence of these plans is not related to company size, but it varies somewhat among the 12 specific manufacturing industries, as shown below:

Industry	Total Companies	With Restricted Stock Plan	
		Number	Percent
Consumer chemicals	20	9	45%
Machinery	60	22	37
Transportation equipment	30	10	33
Fabricated metals	19	6	32
Printing and publishing	19	6	32
Food	39	12	31
Industrial chemicals	41	12	29
All Manufacturers	**404**	**112**	**28%**
Stone, clay and glass	18	5	28
Electrical machinery	44	8	18
Textiles	19	2	11
Primary metals	25	2	8
Paper	21	1	5

Almost half (55) of the companies made an award during 1985. The awards for 236 executives are shown below, converted to a percentage of their 1985 base salary.

[5] Data are derived from regression equations based on the pay of executives in 313 companies with a bonus plan that paid a bonus. The equations are shown below; the coefficient of determination is shown in parentheses.

Total Compensation

Highest paid	$\log Y = 1.8342 + 0.2895 \log X$	(68%)
Second	$\log Y = 1.6527 + 0.2907 \log X$	(64%)
Third	$\log Y = 1.5192 + 0.3033 \log X$	(69%)
Fourth	$\log Y = 1.4688 + 0.3003 \log X$	(71%)
Fifth	$\log Y = 1.3914 + 0.3089 \log X$	(73%)

Base Salary

Highest paid	$\log Y = 1.7774 + 0.2479 \log X$	(69%)
Second	$\log Y = 1.6194 + 0.2452 \log X$	(62%)
Third	$\log Y = 1.4859 + 0.2604 \log X$	(68%)
Fourth	$\log Y = 1.4529 + 0.2539 \log X$	(70%)
Fifth	$\log Y = 1.3944 + 0.2594 \log X$	(72%)

[6] *Top Executive Compensation 1986 Edition*, p. 12.

[7] *Top Executive Compensation 1982 Edition*, p. 13. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

Award as Percent of Salary	Executives Number	Percent
200% or more	35	15%
100–199	22	9
80–99	13	6
60–79	16	7
50–59	12	5
40–49	21	9
30–39	30	13
20–29	52	22
10-19%	28	12
Less than 10%	7	3
Total	236	100%

The median award is the equivalent of 40 percent of 1985 salary, with the middle half ranging between 24 and 97 percent of salary. The median award for chief executive officers, 53 percent of salary, is higher than that for the second highest paid (44 percent), the third highest paid (40 percent), the fourth highest paid (34 percent), and the fifth highest paid (36 percent).

Long-term Performance Plans

Thirty-eight percent (154) of the 404 manufacturers have an executive incentive plan, usually called a performance share or unit plan, based on the achievement of long-term corporate financial goals.[8] This compares with 32 percent of 531 manufacturers that reported a plan in 1982.[9]

These plans are most common among larger companies. For example, 65 percent of the manufacturers with $3 billion or more in sales have a plan compared with 60 percent with sales in the $500 million to $3 billion range, and 29 percent of the companies with sales in the $100 million to $500 million range.

The prevalence of these plans also varies considerably among the specific industries, as shown below:

Industry	Total Companies	With Long-term Performance Plan Number	Percent
Stone, clay and glass	18	10	56%
Transportation equipment	30	14	47
Printing and publishing	19	9	47
Food	39	18	46
Industrial chemicals	41	17	42
Fabricated metals	19	8	42
Electrical machinery	44	17	39
All Manufacturers	**404**	**154**	**38%**
Paper	21	8	38
Machinery	60	18	30
Consumer chemicals	20	6	30
Textiles	19	5	26
Primary metals	25	3	12

[8]For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[9]*Top Executive Compensation 1982 Edition*, p. 14.

Table 5: 1985 and 1984 Bonus Awards (as Percent of Salary), by Company Size

Executive	Sales Volume $325 Million	$800 Million	$2.9 Billion
Chief Executive			
1985 Bonus	45%	51%	59%
Salary	$251,000	$314,000	$432,000
1984 Bonus	51%	56%	62%
Second Highest Paid			
1985 Bonus	41%	47%	55%
Salary	$172,000	$214,000	$294,000
1984 Bonus	45%	50%	56%
Third Highest Paid			
1985 Bonus	38%	43%	52%
Salary	$138,000	$175,000	$244,000
1984 Bonus	46%	49%	54%
Fourth Highest Paid			
1985 Bonus	36%	41%	50%
Salary	$123,000	$155,000	$215,000
1984 Bonus	40%	46%	52%
Fifth Highest Paid			
1985 Bonus	32%	39%	47%
Salary	$111,000	$140,000	$196,000
1984 Bonus	36%	42%	50%

Sixty companies made a payment during 1985 to one or more of their five top-paid executives under this plan. Payments for 263 executives are shown below, converted to a percentage of their 1985 base salaries.

Payment as Percent of Salary	Executives Number	Percent
100% and over	27	10%
70–99	28	11
60–69	14	5
50–59	20	8
40–49	23	9
30–39	27	10
20–29	51	19
10–19	61	23
Less than 10%	12	5
Total	263	100%

The median payment is the equivalent of 33 percent of 1985 salary, with the middle half ranging between 18 and 60 percent of salary. The median payment to chief executive officers, 38 percent of salary, is higher than that for the second (32 percent), the third (33 percent), the fourth (34 percent), and the fifth highest paid (28 percent).

Stock Option Plans

Eighty-two percent (330) of the 404 manufacturers have stock option plans.[10] The incidence of stock option plans

[10]For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

varies somewhat among the specific manufacturing industries, but at least 53 percent of the companies in each industry has a plan, as shown below:

Industry	Total Companies	With Stock Option Number	Percent
Electrical equipment	44	43	98%
Consumer chemicals	20	19	95
Paper	21	19	91
Transportation equipment	30	27	90
Printing and publishing	19	16	84
Stone, clay and glass	18	15	83
All Manufacturers	**404**	**330**	**82%**
Machinery	60	48	80
Industrial chemicals	41	32	78
Primary metals	25	18	72
Food	39	27	69
Fabricated metals	19	13	68
Textiles	19	10	53

About three-quarters (253) of the companies with a plan provide for grants of *both* incentive stock options (ISO's) and nonqualified options; 11 percent grant only ISO's, 10 percent only nonqualified options, and seven did not respond.

Almost two-thirds (215) of the 330 companies with a plan made a regular grant of stock options during 1985. Twenty-one percent of the companies granted *only* ISO's; the same proportion granted *only* nonqualified options; and 58 percent granted *both* ISO's and nonqualified options. Among the 122 plans that granted both, 85 (70 percent) limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

Most of the manufacturers that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The size of the options for 953 executives is shown below, converted to a percentage of 1985 base salary.

Value at Grant (Percent of Salary)	Executives Number	Percent
400% or more	31	3%
300–399	43	5
200–299	92	10
150–199	106	11
100–149	138	15
75–99	161	17
50–74	169	18
25–49	171	18
Less than 25%	42	4
Total	953	100%

The median value of the option grant for these executives is 88 percent of base salary, with the middle half ranging between 53 and 168 percent of salary. The median grant to the chief executive officer (99 percent of salary) is the same as that for the second highest paid, somewhat higher than for the third highest paid (89 percent), the fourth highest paid (83 percent) and the fifth highest paid (86 percent).

One or more of the five top-paid executives in 162 companies exercised a stock option (or SAR) during 1985. The net gain realized in cash or stock (market value less option price) for 484 executives is shown below, converted to a percentage of 1985 base salary.

Gain at Exercise (Percent of Salary)	Executives Number	Percent
400% or more	9	2%
300–399	7	2
200–299	31	6
150–199	28	6
100–149	44	9
75–99	31	6
50–74	47	10
25–49	134	28
15–24	58	12
Less than 15%	95	20
Total	484	100%

The median gain at exercise is equivalent to 39 percent of 1985 salary, with the middle half ranging between 17 and 97 percent of salary. For chief executive officers, the median is 44 percent; for the second highest paid, 41 percent; for the third, 44 percent; for the fourth, 32 percent; and for the fifth highest paid, 38 percent.

The actual dollar gain for these executives at the time of exercise is shown here.

Dollar Gain at Exercise	Executives Number	Percent
$1 million and over	22	5%
500,000 to 999,000	43	9
300,000 to 499,000	46	10
250,000 to 299,000	16	3
200,000 to 249,000	20	4
150,000 to 199,000	37	8
100,000 to 149,000	63	13
75,000 to 99,000	50	10
50,000 to 74,000	53	11
25,000 to 49,000	55	11
Less than $25,000	79	16
Total	484	100%

The median gain is $102,000, with the middle half ranging between $44,000 and $269,000. For the chief executive officers, the median is $196,000; for the second highest paid, $111,000; for the third, $116,000; for the fourth, $66,000; and for the fifth highest paid, $80,000.

Stock-for-stock exercise (stock swaps) are provided for by 72 percent (208) of the 290 companies that grant ISO's and by 71 percent (202) of the 286 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 34 percent (99) of the 290 plans that grant ISO's. Most plans (72 percent) limit SAR's to a small group of top management (essentially, "insiders"); the other 28 percent grant SAR's to all ISO recipients.

SAR's are provided by 53 percent (151) of the 286 plans that grant nonqualified options. Most plans (71 percent) limit SAR's to a small group of top management; the other 29 percent grant SAR's to all nonqualified option recipients.

Chapter 3
Manufacturing—Individual Industries

Food and Kindred Products

This industry includes manufacturers and processors of food and beverages for human consumption, and related products such as confections, fats and oils, and animal feeds. (SIC: 20)

The Companies

Executive compensation data for this industry were obtained from 39 companies, classified below according to 1985 sales volume. The smallest company had sales of $119 million; the largest, $17 billion.

1985 Sales	*Number of Companies*	
$5 billion and over	9	Median Sales:
2–4,999 billion	7	$1.3 billion
1–1,999 billion	7	
500–999 million	6	Middle 50 percent:
200–499 million	5	$493 million to
100–199 million	5	$4.4 billion
Total	39	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this sample of 39 companies is plotted on Chart 2. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$478,000	$320,000 to $797,000
Second	314,000	210,000 to 460,000
Third	250,000	161,000 to 416,000
Fourth	228,000	127,000 to 332,000
Fifth	193,000	118,000 to 327,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	66%	57% to 73%
Third highest	51	45 to 58
Fourth highest	43	38 to 50
Fifth highest	39	31 to 45

As the lines on Chart 3 illustrate, the total compensation of each of the five groups of executives is positively related to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2) which measures the percent of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.5387 + 0.3700 log X	75%
Second	log Y = 1.3148 + 0.3790 log X	69
Third	log Y = 1.2112 + 0.3800 log X	76
Fourth	log Y = 1.2014 + 0.3854 log X	79
Fifth	log Y = 1.0722 + 0.3848 log X	80

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Chart 2: Compensation of the Chief Executive, by Company Sales

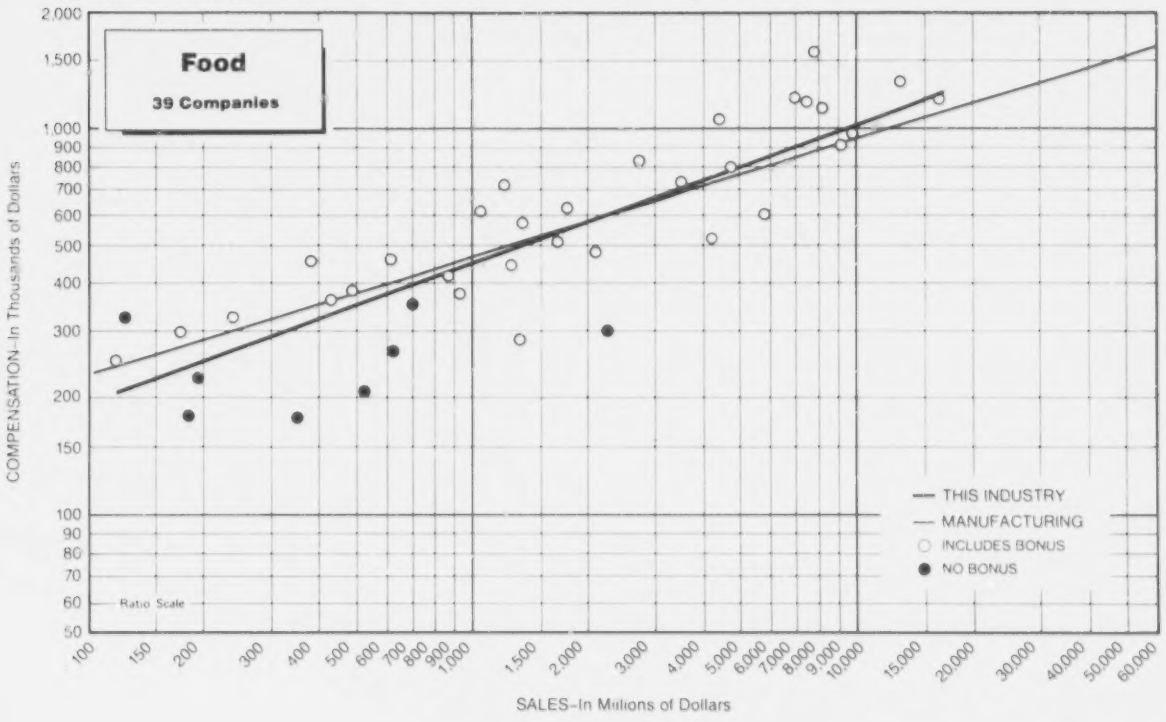
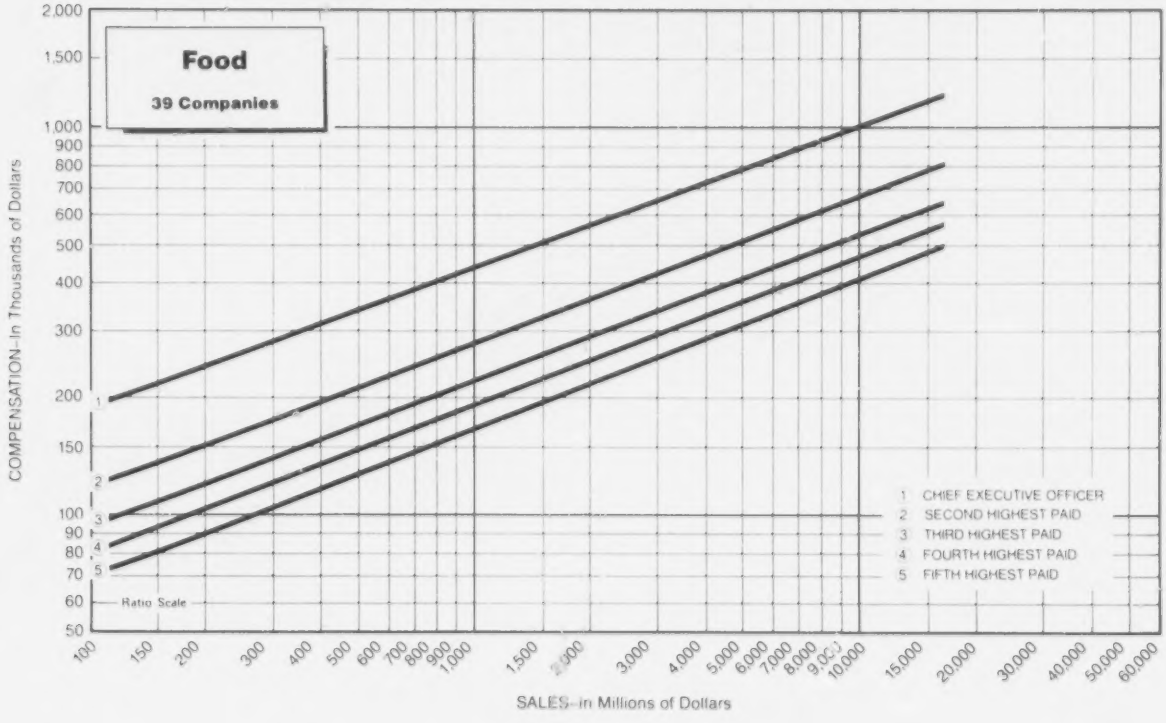


Chart 3: Compensation of the Five Highest Paid Executives, by Company Sales



Base salary of the top-paid executives is also related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid . . .	log Y = 1.6817 + 0.2769 log X	79%
Second	log Y = 1.4636 + 0.2881 log X	68
Third	log Y = 1.3165 + 0.3019 log X	76
Fourth	log Y = 1.3016 + 0.2953 log X	78
Fifth	log Y = 1.2195 + 0.3045 log X	78

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Thirty-three (85 percent) of the 39 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.)

Twenty-nine (88 percent) of these companies made a bonus award for 1985 performance; all also paid a bonus for 1984.

Eighteen (46 percent) of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payments during 1985, see page 13.)

Twelve (31 percent) of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Twenty-seven (69 percent) of the companies have a **stock option plan**. Twenty-one of these provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's and three only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) are provided for by 15 (63 percent) of the 24 companies that grant ISO's, and by 13 (54 percent) of the 24 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by ten of the 24 companies that grant ISO's. SAR's are provided by 18 (75 percent) of the 24 companies that grant nonqualified options.

Textiles

This industry includes companies engaged in manufacturing apparel and accessories and textile fabrics. (SIC:22 and 23)

The Companies

Executive compensation data for this industry were obtained from 19 companies, classified below according to 1985 sales volume. The smallest company had sales of $132 million; the largest, $8.1 billion.

1985 Sales	*Number of Companies*	
$1 billion and over	5	Median Sales: $550 million
500–999 million	6	
300–499 million	3	
100–299 million	5	Middle 50 percent: $253 million to $1.2 billion
Total	19	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 19 companies is plotted on Chart 4. The median and middle 50-percent range of the pay of these chief executive-officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$379,000	$300,000 to $440,000
Second	261,000	202,000 to 305,000
Third	207,000	185,000 to 250,000
Fourth	180,000	161,000 to 220,000
Fifth	150,000	125,000 to 174,000

The ratio of the pay of each executive to that of the chief executive officer is:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	73%	61% to 83%
Third highest	57	50 to 69
Fourth highest	50	45 to 64
Fifth highest	42	35 to 49

Chart 4: Compensation of the Chief Executive, by Company Sales

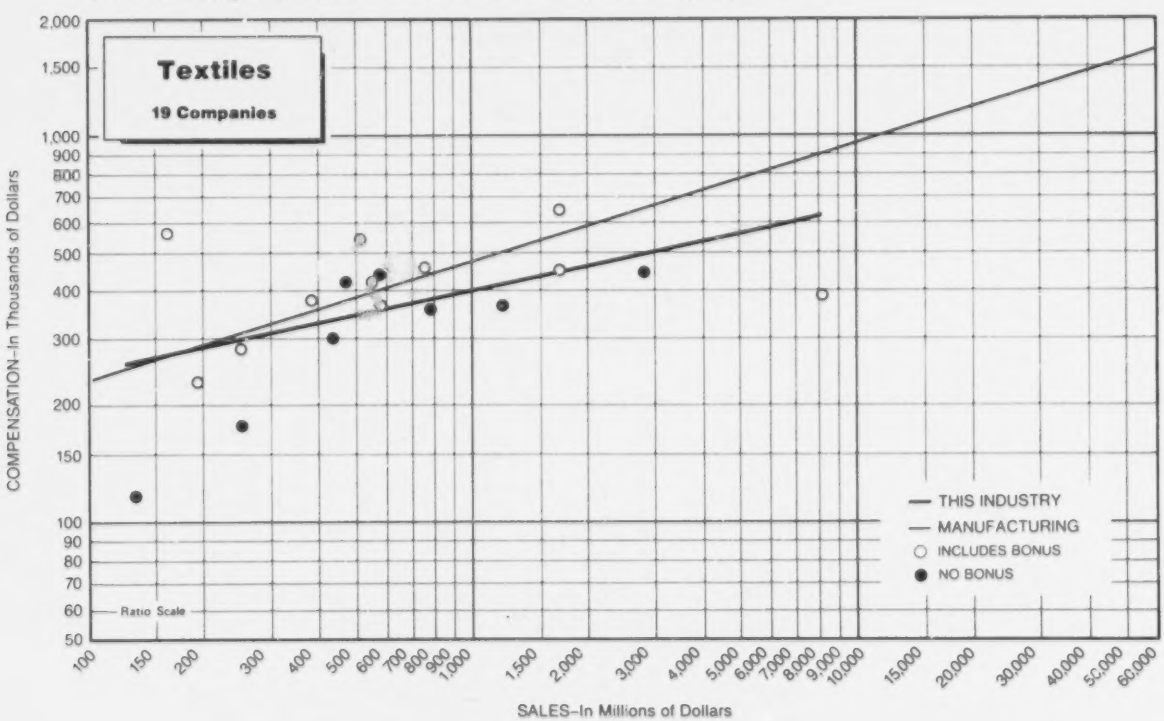
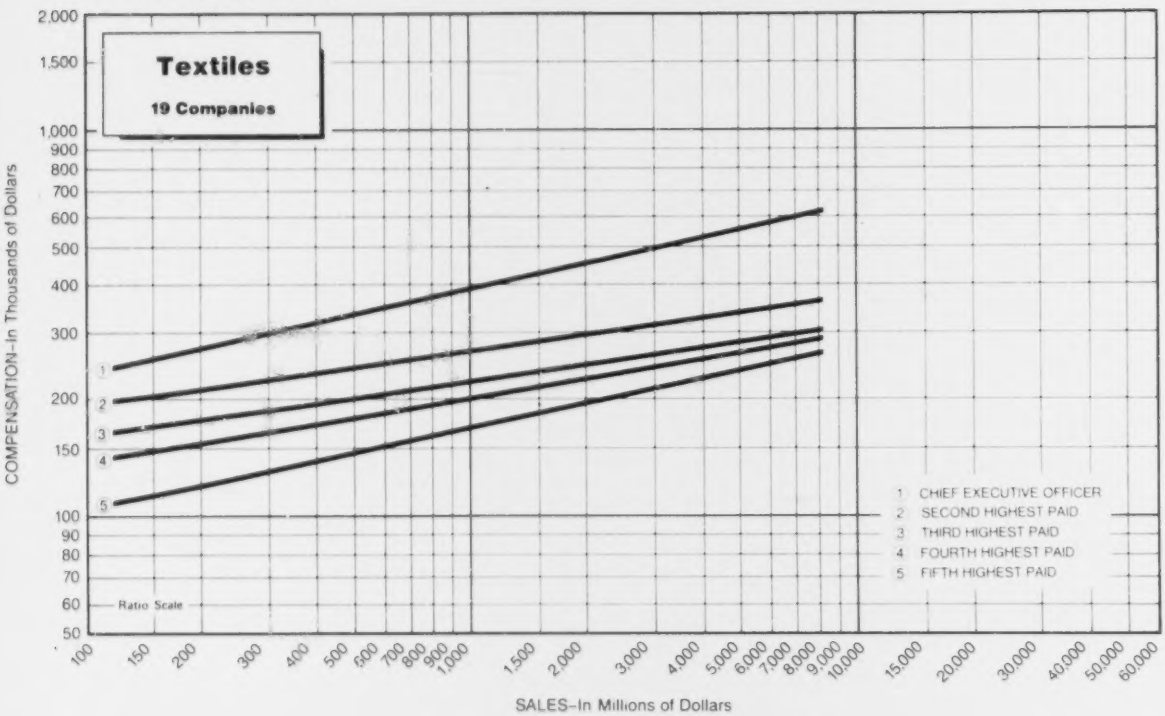


Chart 5: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 5 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 2.0061 + 0.1955 log X	20%
Second	log Y = 2.0074 + 0.1416 log X	10
Third	log Y = 1.9084 + 0.1497 log X	13
Fourth	log Y = 1.8328 + 0.1570 log X	18
Fifth	log Y = 1.5934 + 0.2141 log X	34

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.9894 + 0.1687 log X	18%
Second	log Y = 1.9670 + 0.1227 log X	8
Third	log Y = 1.9222 + 0.1025 log X	5
Fourth	log Y = 1.8276 + 0.1309 log X	14
Fifth	log Y = 1.5590 + 0.1995 log X	44

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Sixteen (84 percent) of the 19 companies have an **annual executive bonus plan**, that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Eight of these companies made a bonus award for 1985 performance; 12 paid a bonus for 1984.

Five of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payments during 1985, see page 13.)

Two of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Ten of the companies have a **stock option plan**. Six of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's and one only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by six of the nine companies that grant ISO's, and by five of the seven companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the nine companies that grant ISO's. SAR's are provided by five of the seven companies that grant nonqualified options.

Paper and Allied Products

This industry includes manufacturers and processors of paper, paperboard and pulp; and converted products such as bags, boxes and envelopes. (SIC: 26)

The Companies

Executive compensation data for this industry were obtained from 21 companies, classified below according to 1985 sales volume. The smallest company had sales of $205 million; the largest, $5.8 billion.

1985 Sales	*Number of Companies*	
$2 billion and over	6	Median Sales:
1–1,999 billion	4	$950 million
500–999 million	6	Middle 50 percent:
100–499 million	5	$459 million to
Total	21	$2.5 billion

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 21 companies is plotted on Chart 6. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$450,000	$295,000 to $590,000
Second	325,000	206,000 to 410,000
Third	244,000	185,000 to 315,000
Fourth	221,000	142,000 to 298,000
Fifth	216,000	133,000 to 234,000

The ratio of the pay of each executive to that of the chief executive officer is:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	70%	59% to 74%
Third highest	55	47 to 62
Fourth highest	49	45 to 53
Fifth highest	45	38 to 51

Chart 6: Compensation of the Chief Executive, by Company Sales

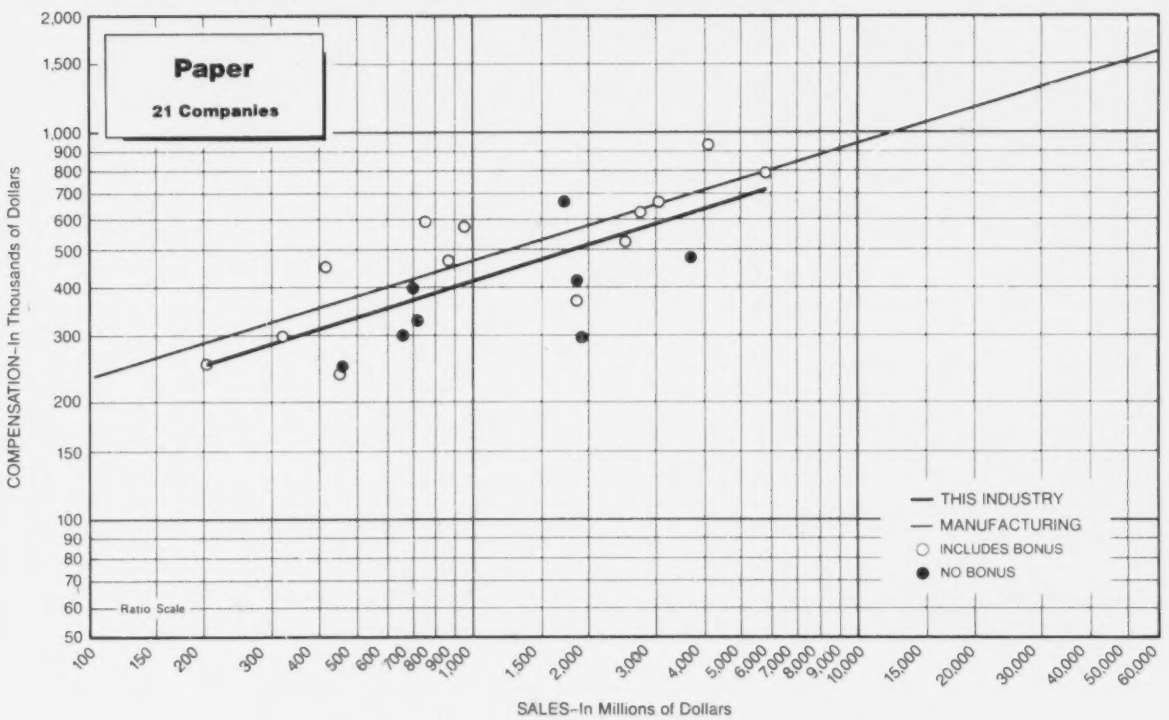
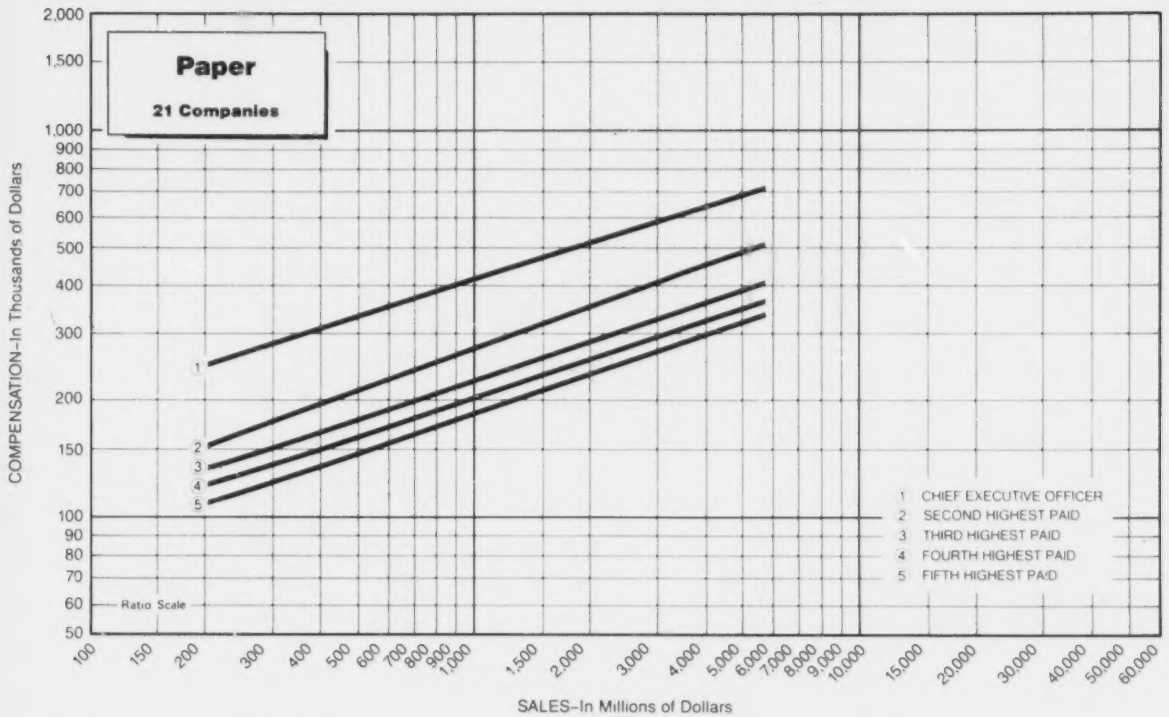


Chart 7: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 7 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6567 + 0.3204 log X	52%
Second	log Y = 1.3463 + 0.3671 log X	62
Third	log Y = 1.3486 + 0.3375 log X	56
Fourth	log Y = 1.3419 + 0.3234 log X	57
Fifth	log Y = 1.2635 + 0.3364 log X	62

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.8028 + 0.2434 log X	52%
Second	log Y = 1.3931 + 0.3240 log X	59
Third	log Y = 1.3578 + 0.3057 log X	64
Fourth	log Y = 1.4315 + 0.2634 log X	56
Fifth	log Y = 1.2477 + 0.3148 log X	81

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Seventeen (81 percent) of the 21 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Thirteen of these companies made a bonus award for 1985 performance; fifteen paid a bonus for 1984.

Eight of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payments during 1985, see page 13.)

One company has a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Nineteen of the companies have a **stock option plan**. Fourteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; four grant only ISO's, and one only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 12 of the 18 companies that grant ISO's, and by ten of the 15 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine of the 18 companies that grant ISO's. SAR's are provided by 12 of the 15 companies that grant nonqualified options.

Printing and Publishing

This industry includes companies engaged in printing by one or more of the common processes and companies engaged in publishing newspapers, books and periodicals. (SIC: 27)

The Companies

Executive compensation data for this industry were obtained from 19 companies, classified below according to 1985 sales volume. The smallest company had sales of $124 million; the largest, $3.4 billion.

1985 Sales	*Number of Companies*	
$1 billion and over	8	Median Sales:
500–999 million	4	$764 million
300–499 million	3	Middle 50 percent:
100–299 million	4	$300 million to $1.5 billion
Total	19	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 19 companies is plotted on Chart 8. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$557,000	$360,000 to $625,000
Second	350,000	194,000 to 529,000
Third	275,000	164,000 to 500,000
Fourth	238,000	150,000 to 418,000
Fifth	227,000	131,000 to 340,000

The ratio of the pay of each executive to that of the chief executive officer is:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	72%	64% to 80%
Third highest	61	45 to 67
Fourth highest	53	38 to 60
Fifth highest	45	35 to 53

As the lines on Chart 9 illustrate, the total compensation

Chart 8: Compensation of the Chief Executive, by Company Sales

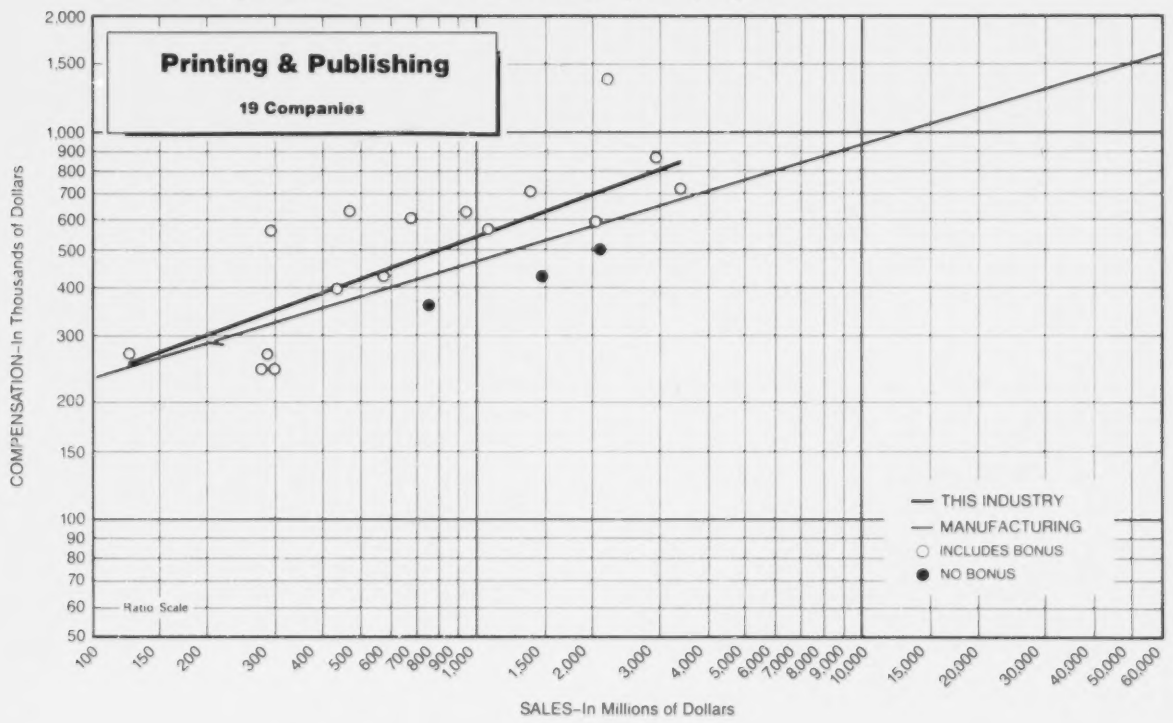
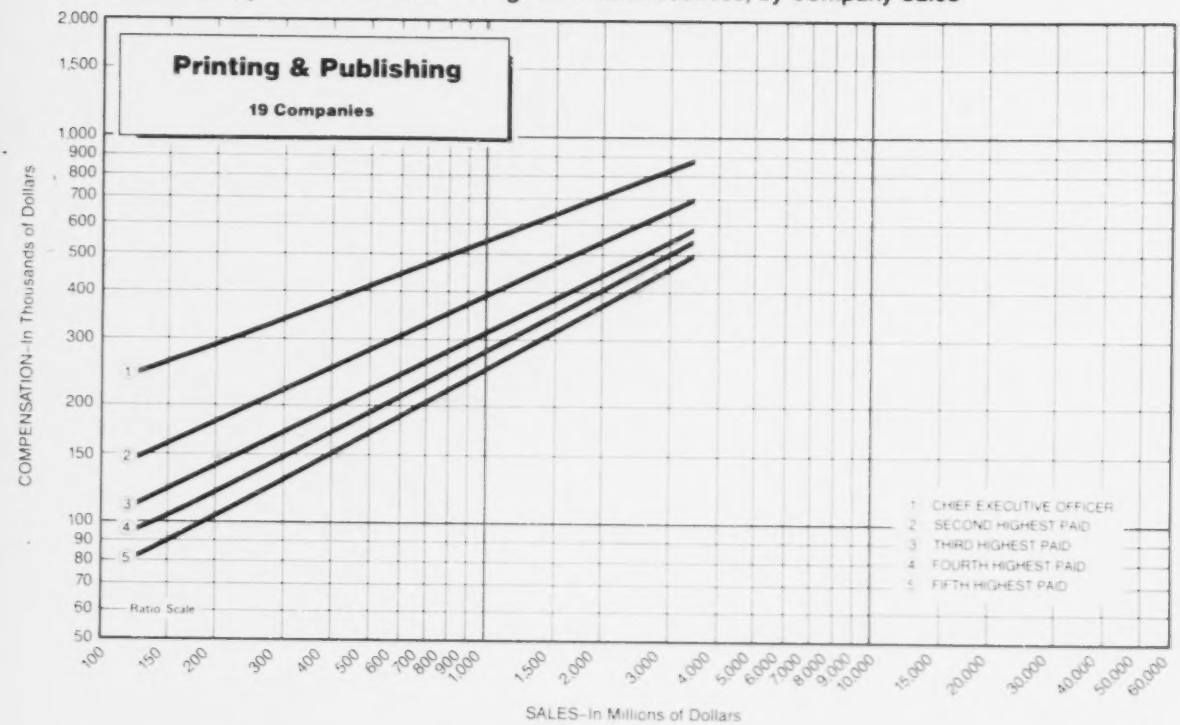


Chart 9: Compensation of the Five Highest Paid Executives, by Company Sales



of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6285 + 0.3680 log X	53%
Second	log Y = 1.2166 + 0.4576 log X	72
Third	log Y = 1.0060 + 0.4980 log X	65
Fourth	log Y = 0.9156 + 0.5100 log X	66
Fifth	log Y = 0.7832 + 0.5403 log X	70

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.5388 + 0.3399 log X	56%
Second	log Y = 1.1857 + 0.4102 log X	69
Third	log Y = 0.9549 + 0.4596 log X	65
Fourth	log Y = 0.8851 + 0.4656 log X	64
Fifth	log Y = 0.7118 + 0.5153 log X	71

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Sixteen of the 19 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) All sixteen paid a bonus in both 1985 and 1984.

Nine of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called **performance share or performance unit plans**. (For a description of payments during 1985, see page 13.)

Six of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Sixteen of the companies have a **stock option plan**. Nine of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's, three only nonqualified options, and one did not respond. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by nine of the 12 companies that grant ISO's, and by nine of the 12 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the 12 companies that grant ISO's. SAR's are provided by four of the 12 companies that grant nonqualified options.

Industrial Chemicals

This industry includes producers of basic chemicals such as acids, alkalis, salts and organic chemicals and chemical products to be used in further manufacture such as synthetic fibers, plastics, dry colors, and pigments. (SIC: 281, 282, and 285-289)

The Companies

Executive compensation data for this industry were obtained from 41 companies, classified below according to 1985 sales volume. The smallest company had sales of $116 million; the largest, $30 billion.

1985 Sales	*Number of Companies*	
$5 billion and over	5	Median Sales:
2–4,999 billion	8	$921 million
1–1,999 billion	7	
500–999 million	8	Middle 50 percent:
100–499 million	13	$278 million to
Total	41	$2.2 billion

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 41 companies is plotted on Chart 10. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$445,000	$289,000 to $760,000
Second	284,000	196,000 to 467,000
Third	221,000	166,000 to 355,000
Fourth	215,000	135,000 to 310,000
Fifth	185,000	125,000 to 305,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	68%	57% to 78%
Third highest	54	47 to 64
Fourth highest	46	38 to 54
Fifth highest	44	36 to 49

As the lines on Chart 11 indicate, the total compensation

Chart 10: Compensation of the Chief Executive, by Company Sales

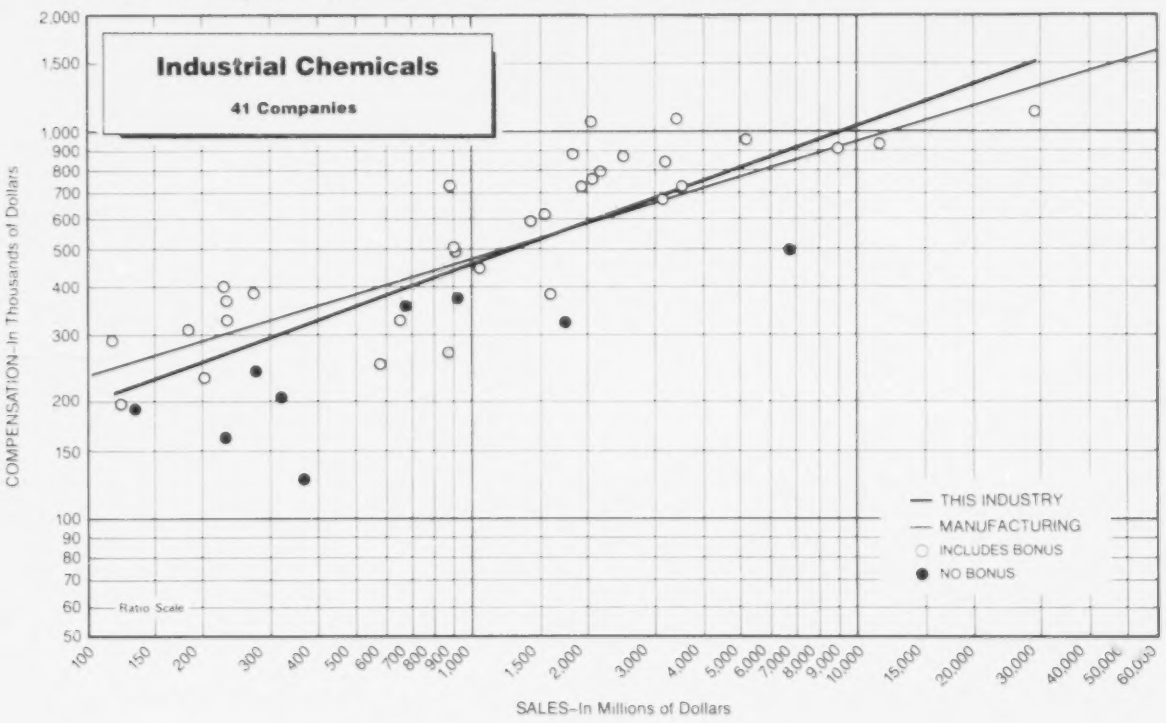
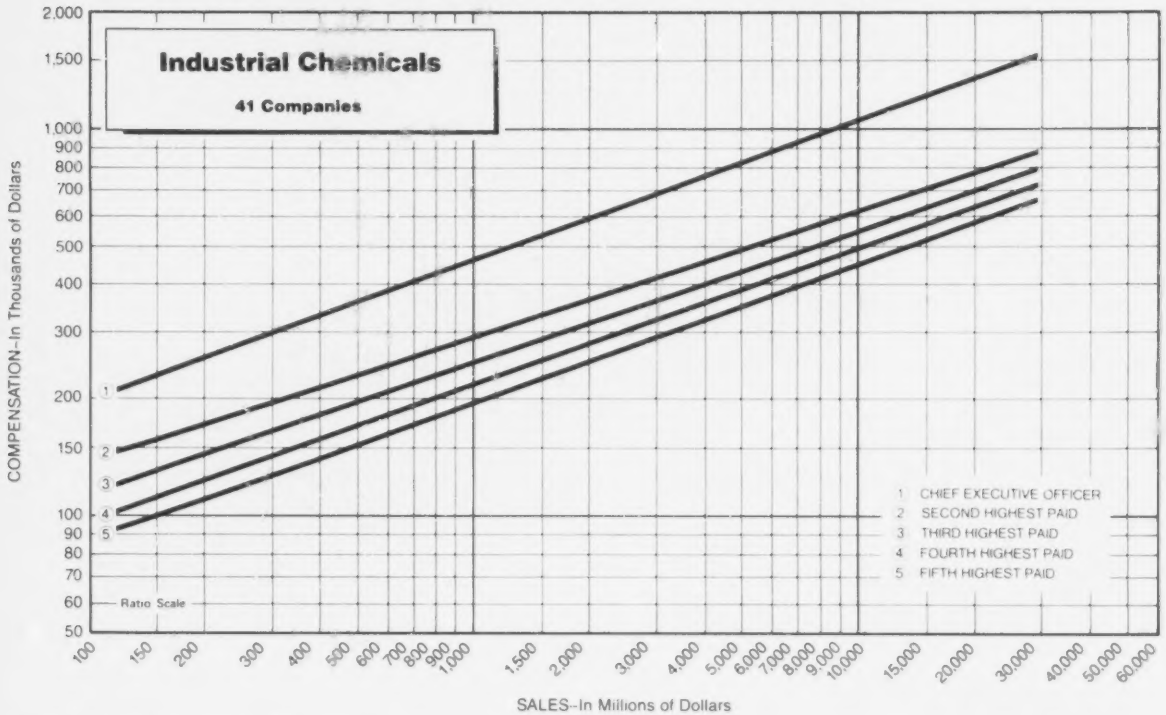


Chart 11: Compensation of the Five Highest Paid Executives, by Company Sales



of each of the five groups of executives is related positively to sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.5791 + 0.3590 log X	65%
Second	log Y = 1.5041 + 0.3240 log X	62
Third	log Y = 1.4076 + 0.3305 log X	67
Fourth	log Y = 1.3017 + 0.3441 log X	74
Fifth	log Y = 1.2311 + 0.3542 log X	73

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6015 + 0.3081 log X	74%
Second	log Y = 1.4891 + 0.2876 log X	71
Third	log Y = 1.4014 + 0.2917 log X	74
Fourth	log Y = 1.3508 + 0.2903 log X	80
Fifth	log Y = 1.2438 + 0.3113 log X	83

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Thirty-eight of the 41 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Thirty-three of these companies made a bonus award for 1985 performance; 36 paid a bonus for 1984.

Seventeen of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Twelve of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Thirty-two of the companies have a **stock option plan**. Twenty-six of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; three grant only ISO's, and three only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 21 of the 29 companies that grant ISO's, and by 24 of the 29 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine of the 29 companies that grant ISO's. SAR's are provided by 16 of the 29 companies that grant nonqualified options.

Consumer Chemicals

This industry includes manufacturers of finished chemical products to be used for ultimate consumption such as drugs, soap, detergents and cleaning preparations, perfumes, cosmetics and other toilet preparations. (SIC: 283 and 284)

The Companies

Executive compensation data for this industry were obtained from 20 companies, classified below according to 1985 sales volume. The smallest company had sales of $167 million; the largest, $14 billion.

1985 Sales	*Number of Companies*	
$2 billion and over	11	Median Sales:
1–1,999 billion	2	$2 billion
500–999 million	2	Middle 50 percent:
100–499 million	5	$382 million to
Total	20	$4 billion

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 20 companies is plotted on Chart 12. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$733,000	$440,000 to $900,000
Second	484,000	271,000 to 675,000
Third	400,000	226,000 to 507,000
Fourth	328,000	188,000 to 420,000
Fifth	326,000	185,000 to 388,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	70%	64% to 75%
Third highest	53	47 to 64
Fourth highest	44	41 to 53
Fifth highest	44	36 to 48

As the lines on Chart 13 illustrate, the total compensation of each of the five groups of executives is related positively

Chart 12: Compensation of the Chief Executive, by Company Sales

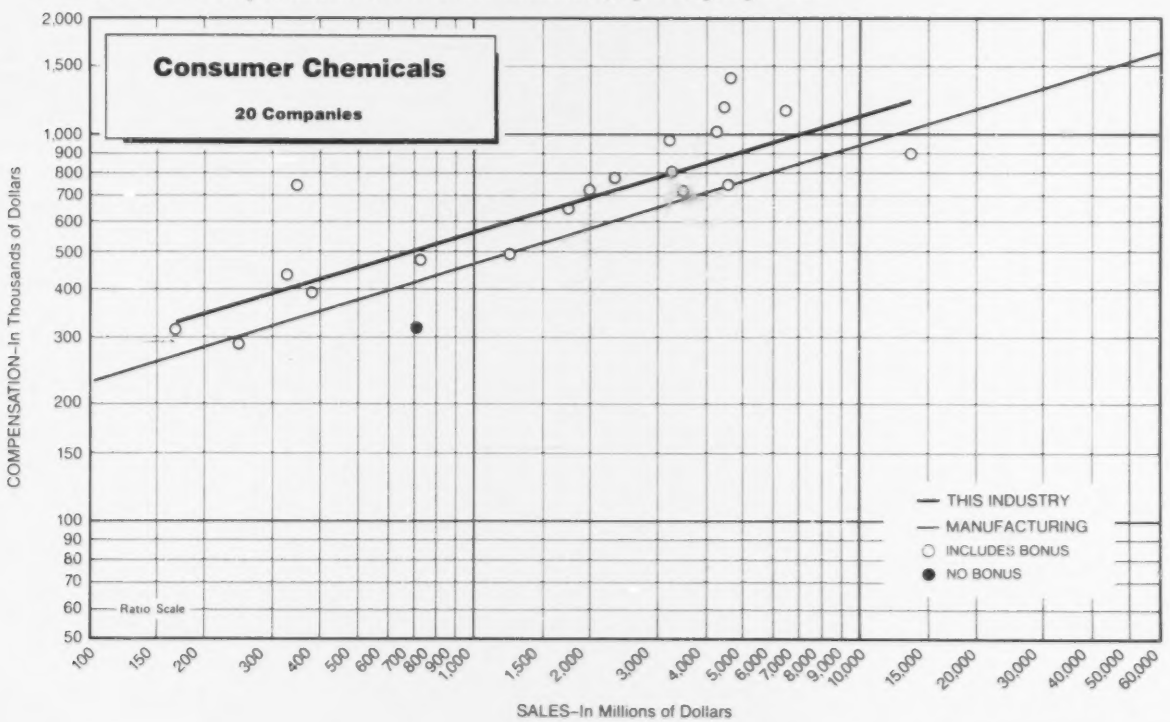
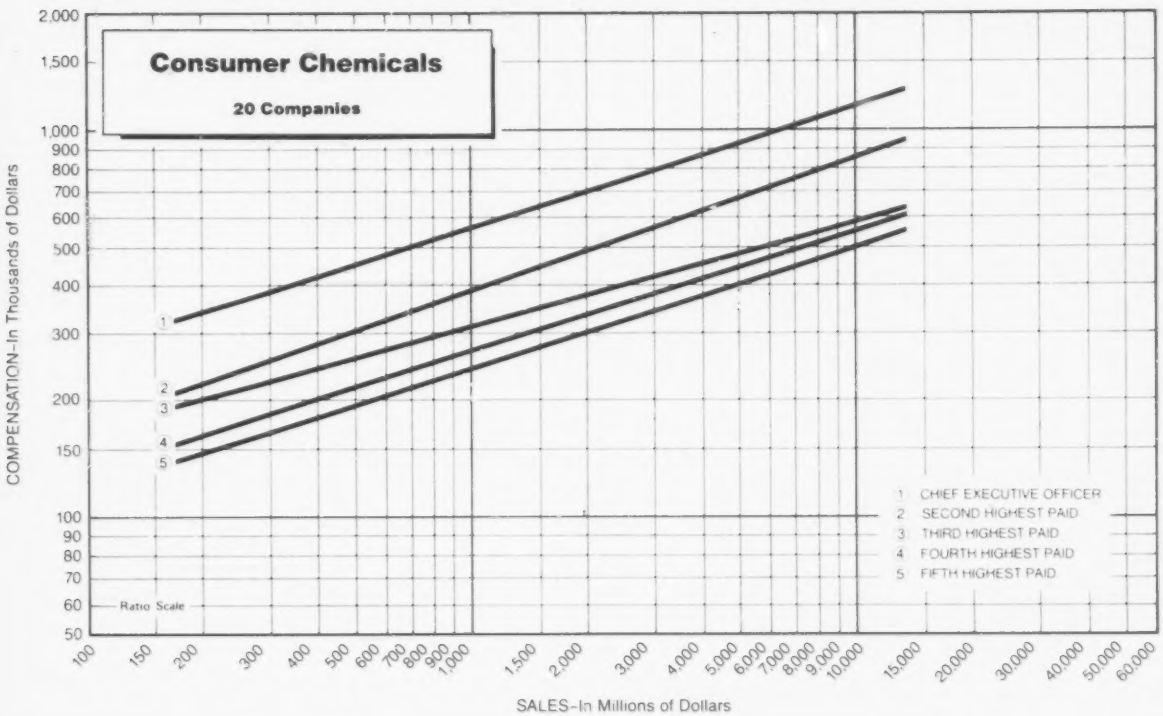


Chart 13: Compensation of the Five Highest Paid Executives, by Company Sales



to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7987 + 0.3190 log X	70%
Second	log Y = 1.5761 + 0.3371 log X	69
Third	log Y = 1.6486 + 0.2838 log X	58
Fourth	log Y = 1.5024 + 0.3118 log X	74
Fifth	log Y = 1.4420 + 0.3175 log X	75

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.9981 + 0.1992 log X	59%
Second	log Y = 1.7522 + 0.2279 log X	64
Third	log Y = 1.8185 + 0.1832 log X	44
Fourth	log Y = 1.5670 + 0.2393 log X	67
Fifth	log Y = 1.5721 + 0.2296 log X	74

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Nineteen of the 20 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Eighteen of these companies made a bonus award for 1985 performance; 18 also paid a bonus for 1984.

Six of the companies have an executive incentive plan based on long-term corporate performance goals, and usually called **performance share or performance unit plans**. (For a description of payments during 1985, see page 13.)

Nine of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Nineteen of the companies have a **stock option plan**. Seventeen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; none grant only ISO's; one grants only nonqualified options; and one did not respond. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 14 of the 17 companies that grant ISO's, and by 13 of the 18 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven of the 17 companies that grant ISO's. SAR's are provided by 9 of the 18 companies that grant nonqualified options.

Stone, Clay, Glass and Concrete Products

This industry includes manufacturers of flat glass and other glass products, cement, structural clay products, pottery, concrete and gypsum products, cut stone products, abrasive and asbestos products, etc., from materials taken principally from the earth in the form of stone, clay and sand. (SIC: 32)

The Companies

Executive compensation data for this industry were obtained from 18 companies, classified below according to 1985 sales volume. The smallest company had sales of $297 million; the largest, $7.9 billion.

1985 Sales	*Number of Companies*	
$2 billion and over	5	Median Sales:
1–1,999 billion	5	$1 billion
500–999 million	3	Middle 50 percent:
300–499 million	4	$434 million to
100–299 million	1	$2.5 billion
Total	18	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this sample of 18 companies is plotted on Chart 14. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown here:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$523,000	$350,000 to $641,000
Second	320,000	200,000 to 411,000
Third	216,000	172,000 to 398,000
Fourth	202,000	147,000 to 315,000
Fifth	170,000	130,000 to 292,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	67%	59% to 71%
Third highest	55	47 to 61
Fourth highest	49	42 to 52
Fifth highest	43	38 to 48

As the lines on Chart 15 show, the total compensation of

Chart 14: Compensation of the Chief Executive, by Company Sales

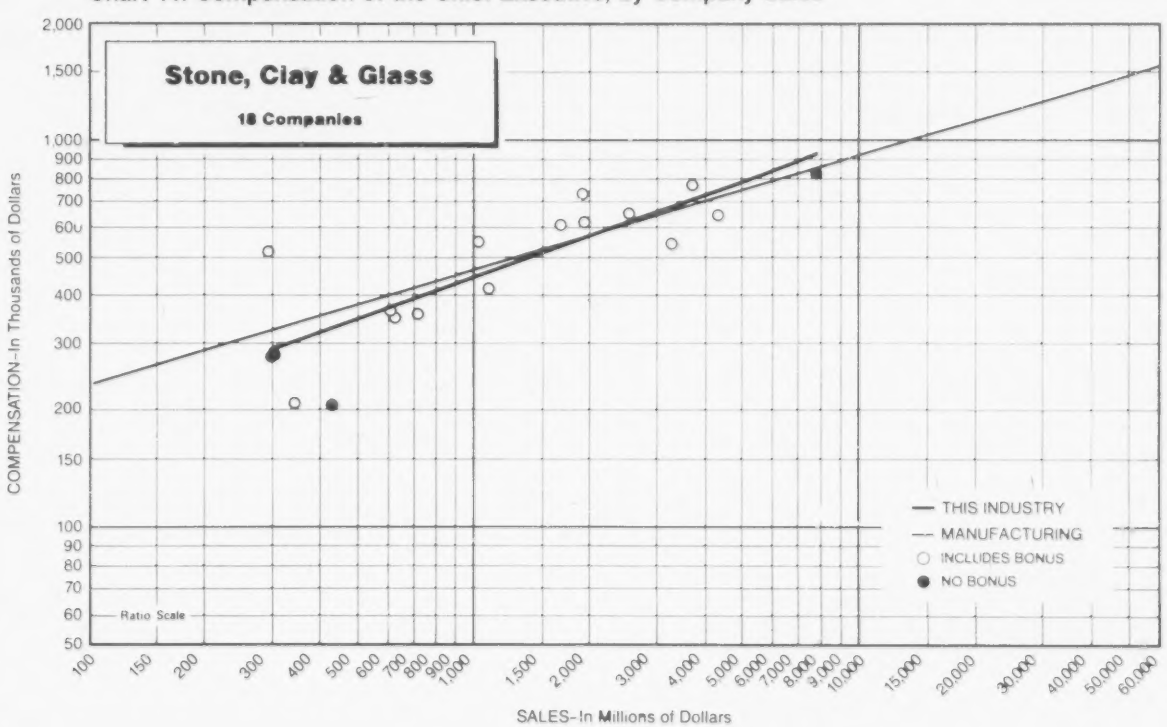
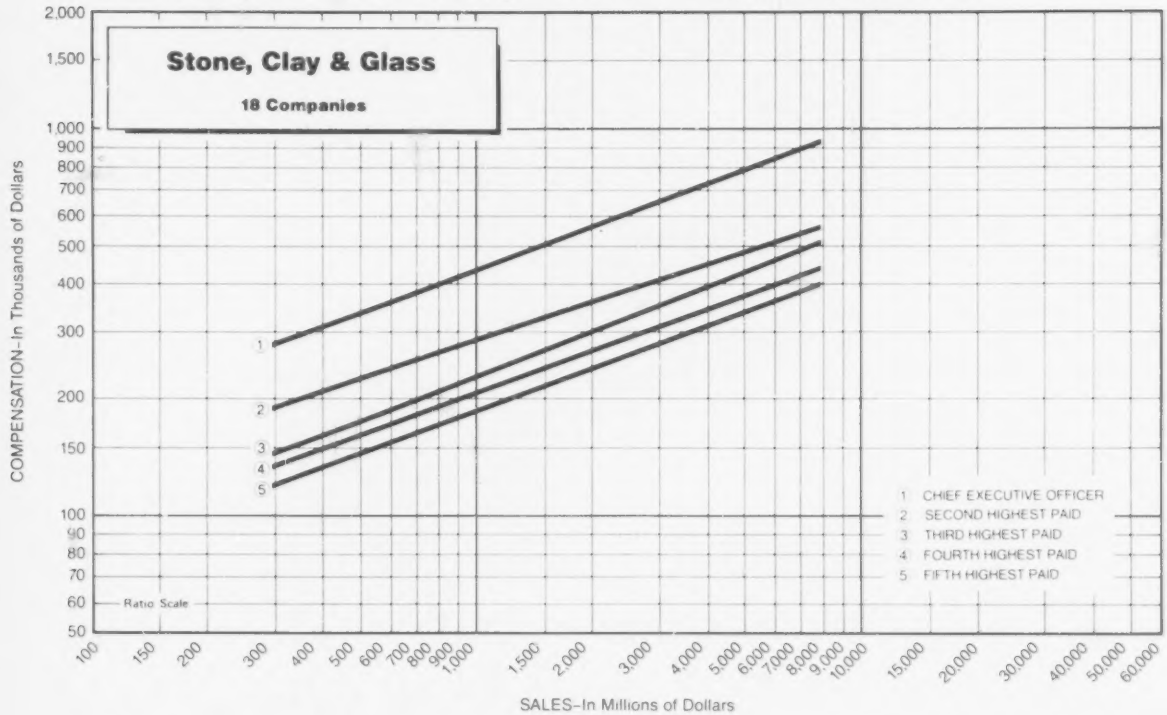


Chart 15: Compensation of the Five Highest Paid Executives, by Company Sales



each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.5623 + 0.3594 log X	68%
Second	log Y = 1.5129 + 0.3155 log X	63
Third	log Y = 1.2107 + 0.3880 log X	77
Fourth	log Y = 1.2451 + 0.3585 log X	75
Fifth	log Y = 1.1995 + 0.3594 log X	74

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6055 + 0.2976 log X	65%
Second	log Y = 1.5202 + 0.2677 log X	50
Third	log Y = 1.1446 + 0.3658 log X	79
Fourth	log Y = 1.0678 + 0.3695 log X	74
Fifth	log Y = 1.1111 + 0.3479 log X	75

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Seventeen of the 18 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Sixteen of these companies made a bonus award for 1985 performance; sixteen also paid a bonus for 1984.

Ten of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Five of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Fifteen of the companies have a **stock option plan**. Thirteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's; none grants only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 10 of the 15 companies that grant ISO's, and by 9 of the 13 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven of the 15 companies that grant ISO's. SAR's are provided by 8 of the 13 companies that grant nonqualified options.

Primary Metals

This industry includes companies engaged in the smelting of ferrous and nonferrous metals; in rolling, drawing and alloying these metals; in the manufacture of castings, forgings and other basic metal products; and in the manufacture of nails, spikes and insulated wire and cable. (SIC: 33)

The Companies

Executive compensation data for this industry were obtained from 25 companies, classified below according to 1985 sales volume. The smallest company had sales of $110 million; the largest, $5.2 billion.

1985 Sales	*Number of Companies*	
$1 billion and over	8	Median Sales:
500–999 million	5	$650 million
300–499 million	5	Middle 50 percent:
100–299 million	7	$288 million to $2.2 billion
Total	25	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 25 companies is plotted on Chart 16. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$400,000	$275,000 to $526,000
Second	267,000	181,000 to 324,000
Third	182,000	138,000 to 267,000
Fourth	174,000	126,000 to 240,000
Fifth	126,000	101,000 to 192,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	67%	57% to 75%
Third highest	50	46 to 61
Fourth highest	47	38 to 52
Fifth highest	39	34 to 43

Chart 16: Compensation of the Chief Executive, by Company Sales

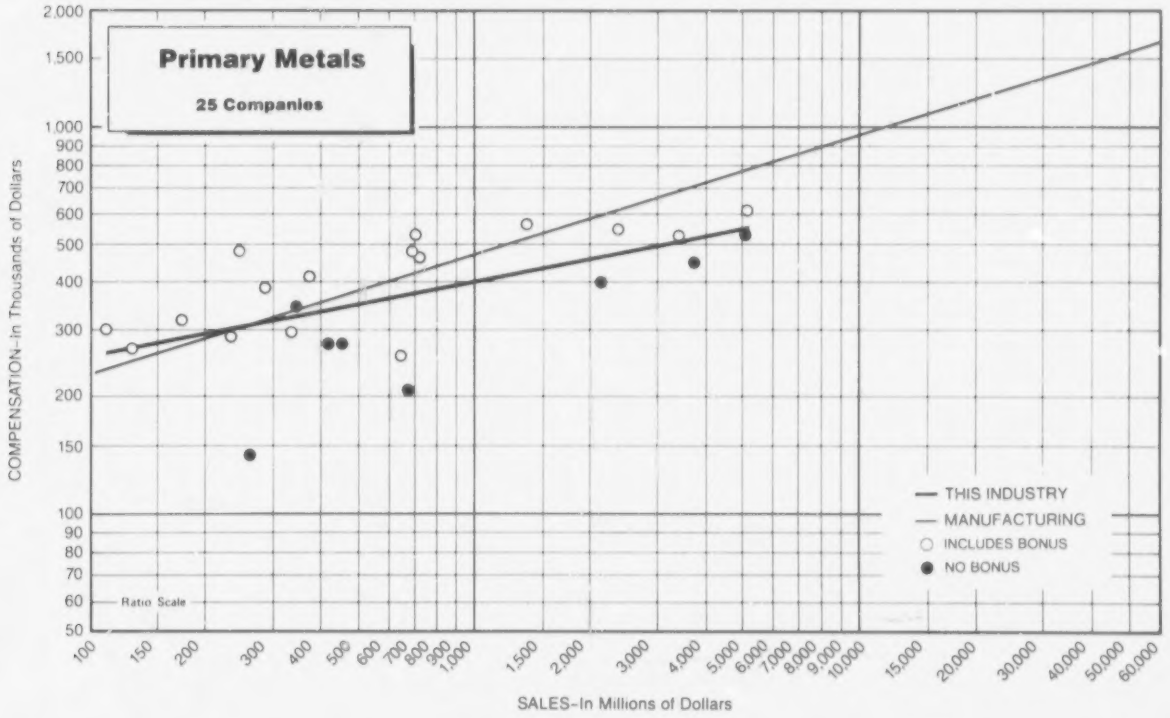
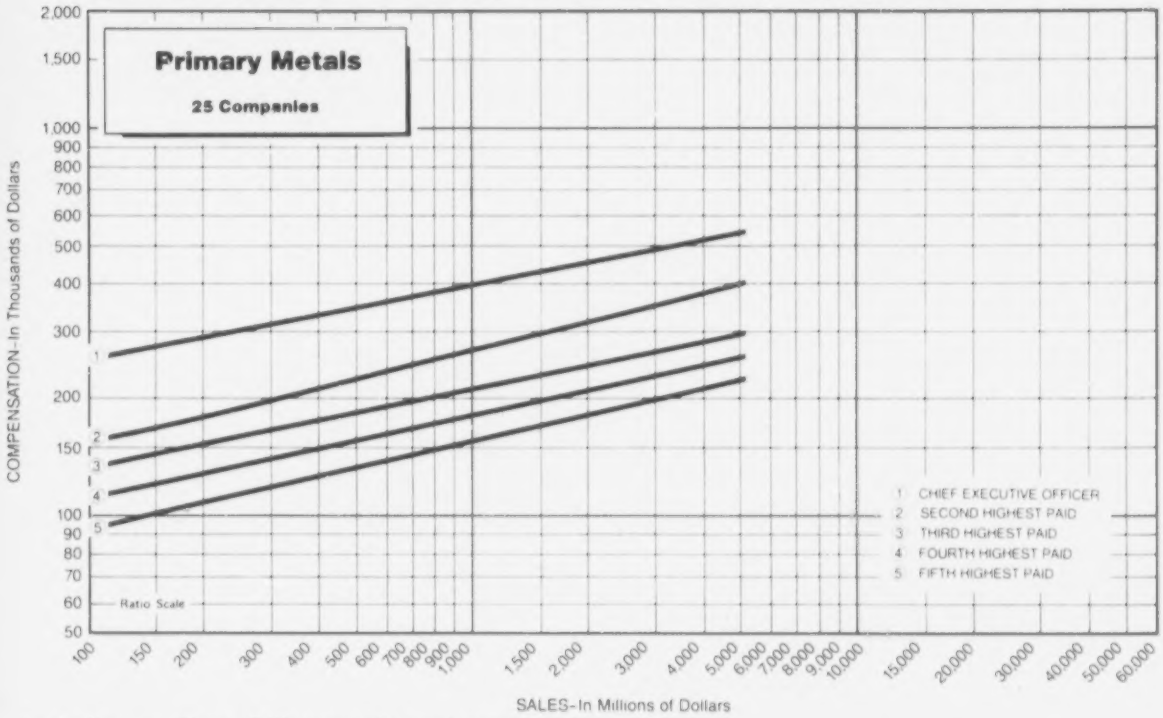


Chart 17: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 17 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2) which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 2.0161 + 0.1952 log X	39%
Second	log Y = 1.7241 + 0.2371 log X	51
Third	log Y = 1.6954 + 0.2104 log X	40
Fourth	log Y = 1.5991 + 0.2221 log X	47
Fifth	log Y = 1.4838 + 0.2366 log X	61

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6621 + 0.2839 log X	76%
Second	log Y = 1.4497 + 0.2951 log X	70
Third	log Y = 1.4040 + 0.2805 log X	63
Fourth	log Y = 1.3171 + 0.2905 log X	70
Fifth	log Y = 1.3362 + 0.2648 log X	71

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-four of the 25 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Eighteen of these companies made a bonus award for 1985 performance; all of these also paid a bonus for 1984.

Three of the companies have an executive incentive plan that is based on long-term corporate performance goals, and usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Two of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Eighteen of the companies have a **stock option plan**. Fourteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; one grants only ISO's; two only nonqualified options; and one did not respond. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by eight of the 15 companies that grant ISO's, and by ten of the 16 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven of the 15 companies that grant ISO's. SAR's are provided by 11 of the 16 companies that grant nonqualified options.

Fabricated Metal Products (except Machinery and Transportation Equipment)

This industry includes manufacturers of ferrous and nonferrous metal products such as metal cans, tinware, hand tools, cutlery, hardware, fabricated structural metal products, metal stampings, and a variety of metal and wire products. Excluded are machinery, transportation equipment, professional, scientific and controlling instruments, jewelry and silverware. (SIC: 34)

The Companies

Executive compensation data for this industry were obtained from 19 companies, classified below according to 1985 sales volume. The smallest company had sales of $140 million; the largest, $4.2 billion.

1985 Sales	*Number of Companies*	
$1 billion and over	8	Median Sales:
500–999 million	5	$596 million
300–499 million	4	Middle 50 percent:
100–299 million	2	$353 million to
Total	19	$2.9 billion

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this particular sample of 19 companies is plotted on Chart 18. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$408,000	$342,000 to $494,000
Second	279,000	261,000 to 315,000
Third	215,000	170,000 to 255,000
Fourth	187,000	167,000 to 239,000
Fifth	178,000	119,000 to 186,000

The ratio of the pay of each executive to that of the chief executive officer is shown here:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	74%	65% to 82%
Third highest	60	45 to 65
Fourth highest	52	38 to 57
Fifth highest	44	32 to 50

Chart 18: Compensation of the Chief Executive, by Company Sales

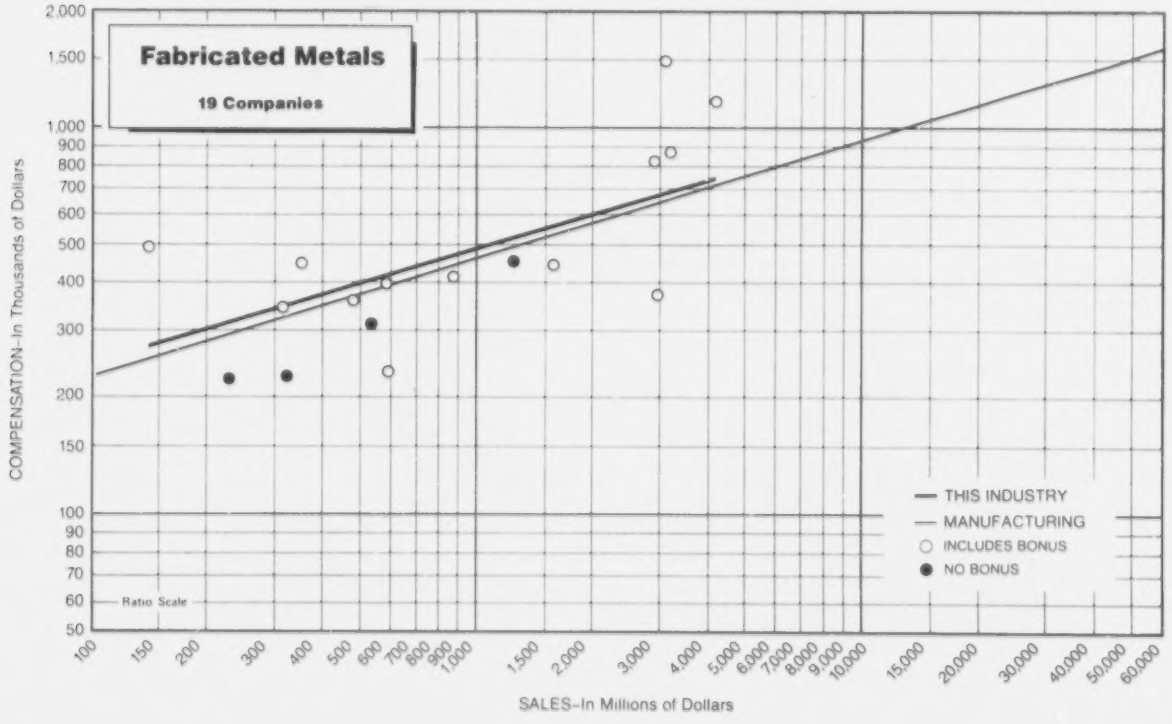
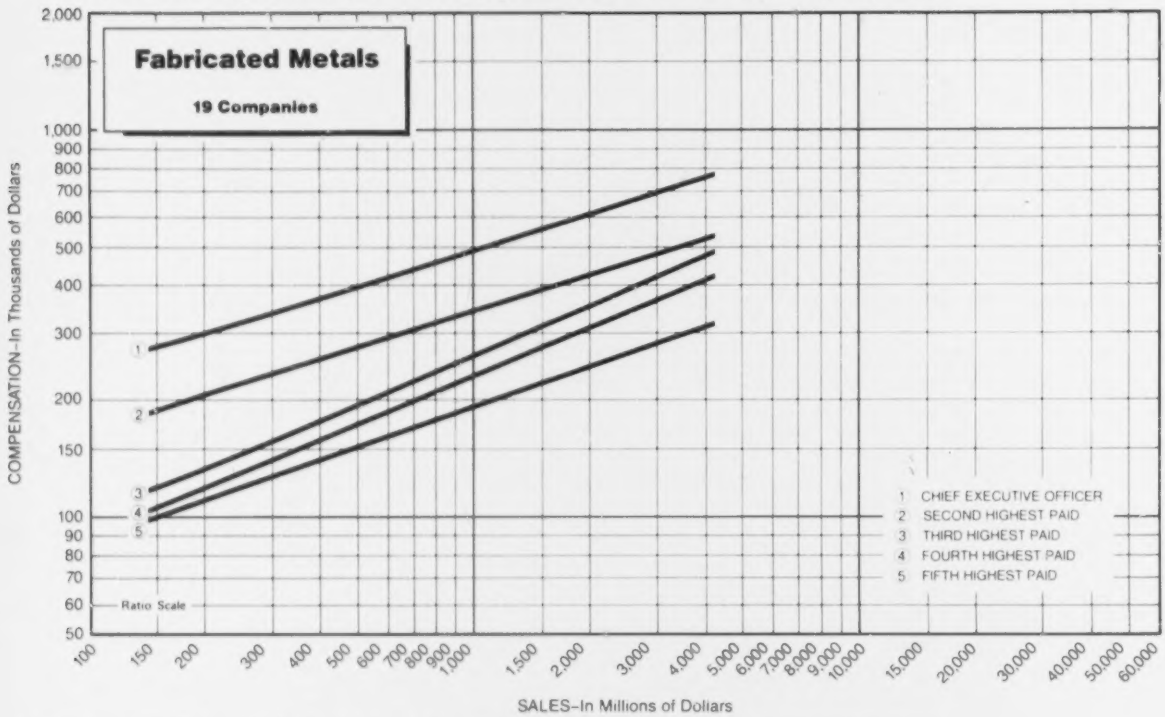


Chart 19: Compensation of the Five Highest Paid Executives, by Company Sales



As the lines on Chart 19 show, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7732 + 0.3059 log X	28%
Second	log Y = 1.6134 + 0.3077 log X	37
Third	log Y = 1.2052 + 0.4063 log X	50
Fourth	log Y = 1.1543 + 0.4044 log X	54
Fifth	log Y = 1.2554 + 0.3449 log X	39

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7445 + 0.2572 log X	37%
Second	log Y = 1.5709 + 0.2675 log X	37
Third	log Y = 1.2050 + 0.3576 log X	52
Fourth	log Y = 1.2070 + 0.3382 log X	53
Fifth	log Y = 1.2486 + 0.3024 log X	46

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Eighteen of the 19 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Seventeen of these companies made a bonus award for 1985 performance; fifteen of them also paid a bonus for 1984.

Eight of the companies have an executive incentive plan that is based on long-term corporate performance goals usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Six of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Thirteen of the companies have a **stock option plan**. Ten of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; one grants only ISO's, and two only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by seven of the 11 companies that grant ISO's, and by seven of the 12 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by one of the 11 companies that grant ISO's. SAR's are provided by three of the 12 companies that grant nonqualified options.

Machinery (except Electrical)

This industry includes manufacturers of machinery and equipment, other than electrical equipment and transportation equipment. Machines powered by built-in or detachable motors are included, except for electrical household appliances. Portable tools, both electrical and pneumatic-powered, are included, but not hand tools. Includes office machines and computers. (SIC: 35)

The Companies

Executive compensation data for this industry were obtained from 60 companies, classified below according to 1985 sales volume. The smallest company had sales of $102 million; the largest, $50 billion.

1985 Sales	*Number of Companies*	
$5 billion and over	2	Median Sales:
2–4,999 billion	8	$547 million
1–1,999 billion	8	
500–999 million	13	Middle 50 percent:
300–499 million	8	$216 million to
200–299 million	8	$1.5 billion
100–199 million	13	
Total	60	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this sample of 60 companies is plotted on Chart 20. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$400,000	$304,000 to $587,000
Second	254,000	170,000 to 419,000
Third	199,000	142,000 to 317,000
Fourth	185,000	130,000 to 290,000
Fifth	167,000	117,000 to 259,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

Chart 20: Compensation of the Chief Executive, by Company Sales

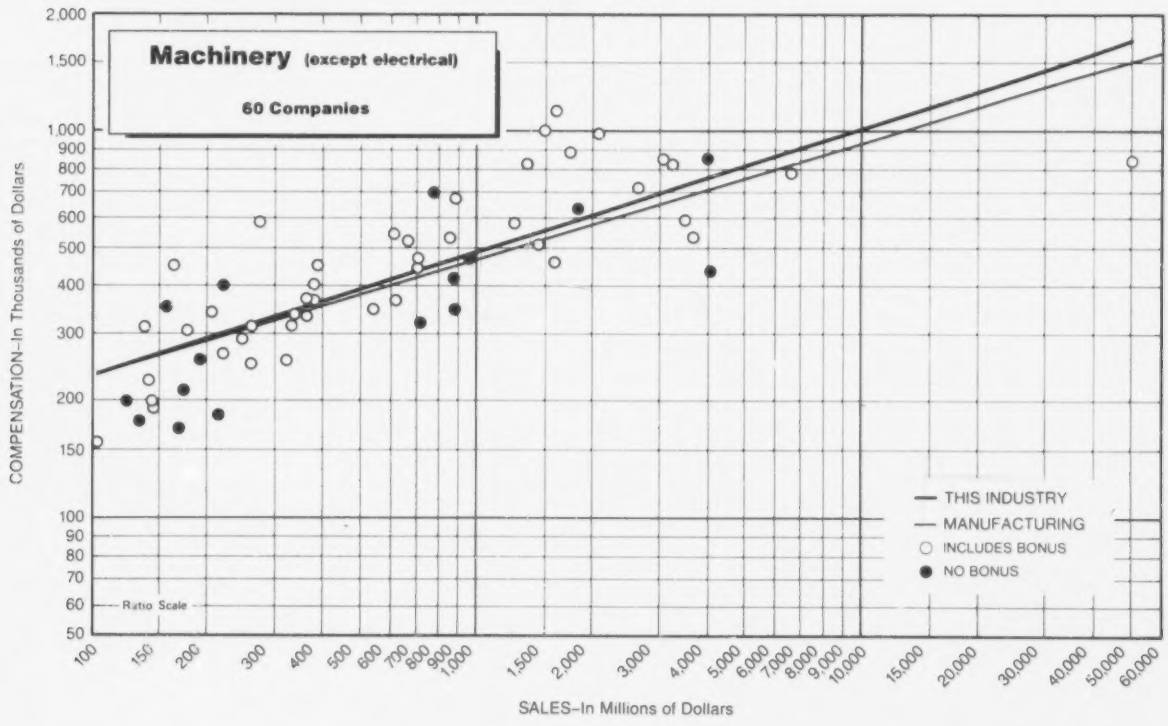
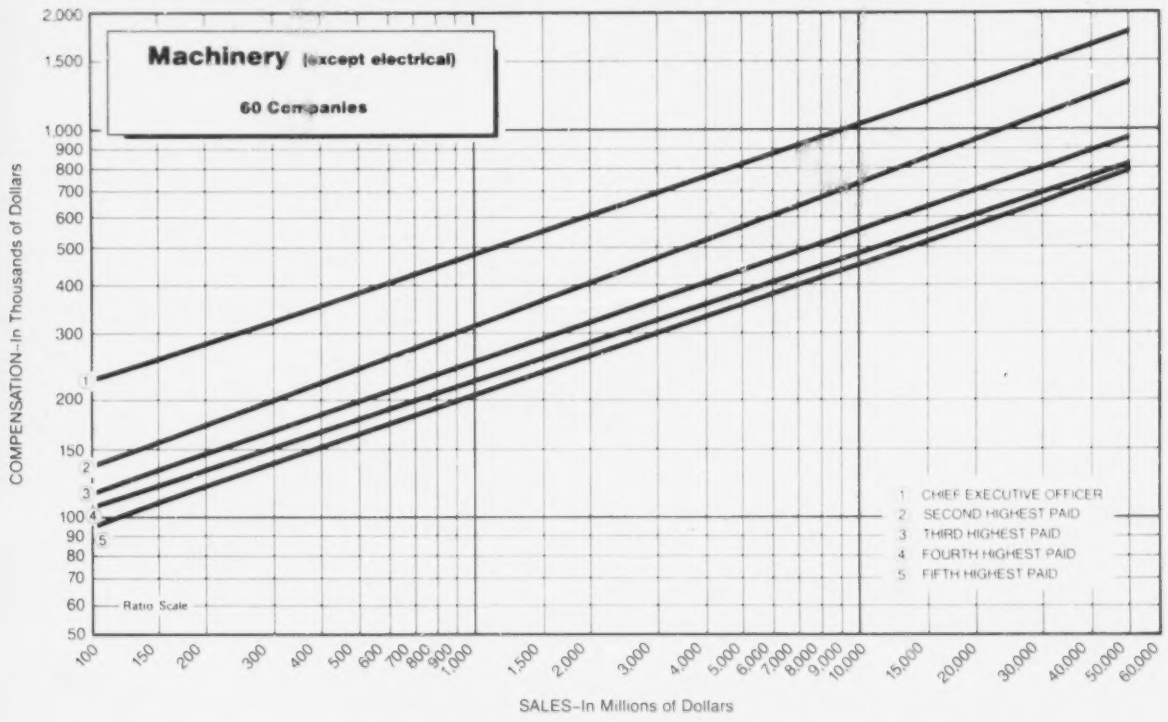


Chart 21: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	Pay as Percentage of Chief Executive's Compensation: Median	Middle 50 Percent Range
Second highest	65%	55% to 74%
Third highest	54	44 to 61
Fourth highest	46	40 to 55
Fifth highest	42	38 to 50

As the lines on Chart 21 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.7024 + 0.3289 log X	64%
Second	log Y = 1.4041 + 0.3654 log X	68
Third	log Y = 1.3967 + 0.3367 log X	72
Fourth	log Y = 1.3661 + 0.3296 log X	71
Fifth	log Y = 1.2879 + 0.3435 log X	76

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.7506 + 0.2706 log X	59%
Second	log Y = 1.4577 + 0.3084 log X	66
Third	log Y = 1.4636 + 0.2763 log X	65
Fourth	log Y = 1.4426 + 0.2672 log X	66
Fifth	log Y = 1.4340 + 0.2528 log X	60

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Fifty-five of the 60 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Forty-four of these companies made a bonus award for 1985 performance; forty-five paid a bonus for 1984.

Eighteen of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Twenty-two of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Forty-eight of the companies have a **stock option plan**. Thirty-four of these plans provide for grants of *both* in-

centive stock options (ISO's) and nonqualified options; six grant only ISO's, and eight only nonqualified options. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 27 of the 40 companies that grant ISO's, and by 26 of the 42 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 11 of the 40 companies that grant ISO's. SAR's are provided by 15 of the 42 companies that grant nonqualified options.

Electrical and Electronic Machinery, Equipment and Supplies

This industry includes manufacturers of machinery, apparatus and supplies for the generation, storage, transportation, transformation and utilization of electrical energy. Includes household appliances, but not industrial machinery powered by built-in or detachable electric motors. Includes electronic components. (SIC: 36)

The Companies

Executive compensation data for this industry were obtained from 44 companies, classified below according to 1985 sales volume. The smallest company had sales of $103 million; the largest, $35 billion.

1985 Sales	Number of Companies	
$5 billion and over	5	Median Sales:
2–4,999 billion	6	$521 million
1–1,999 billion	3	
300–999 million	16	Middle 50 percent:
200–299 million	6	$253 million to
100–199 million	8	$1.8 billion
Total	44	

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this sample of 44 companies is plotted on Chart 22. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	Median	Middle 50 Percent Range
Highest paid	$400,000	$275,000 to $540,000
Second	270,000	185,000 to 375,000
Third	208,000	157,000 to 305,000
Fourth	171,000	143,000 to 265,000
Fifth	162,000	133,000 to 230,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	Median	Middle 50 Percent Range
Second highest	69%	59% to 81%
Third highest	59	47 to 62
Fourth highest	50	42 to 57
Fifth highest	45	37 to 49

As the lines on Chart 23 show, the total compensation of

Chart 22: Compensation of the Chief Executive, by Company Sales

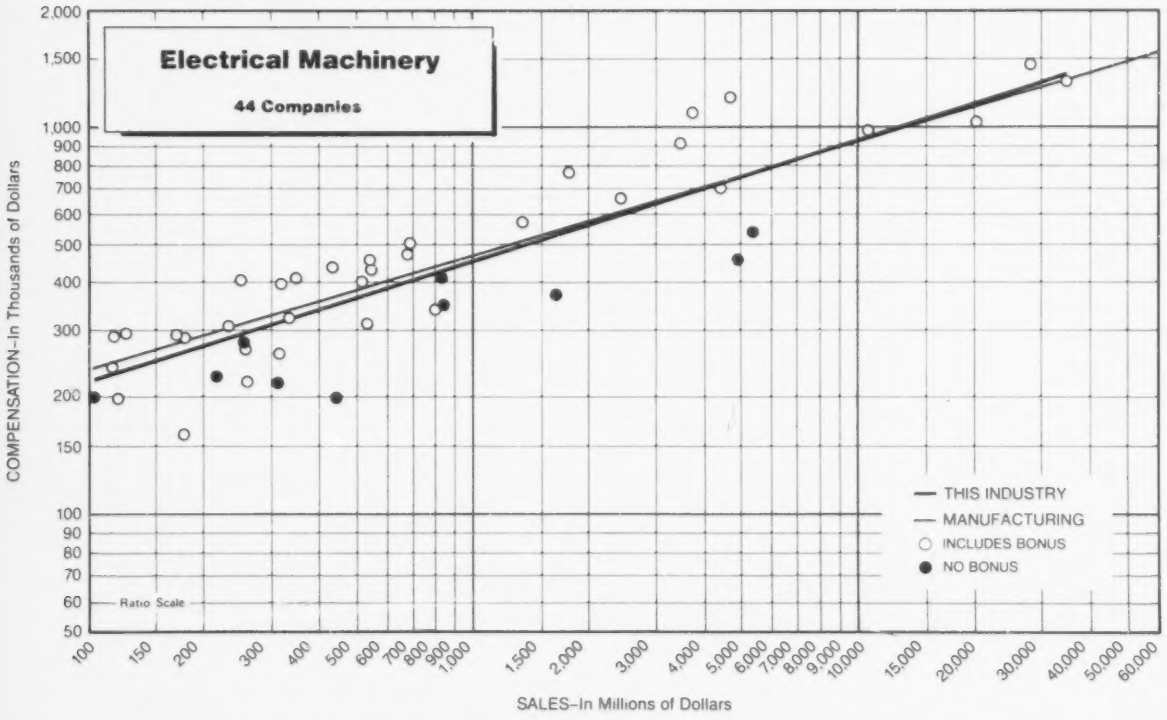
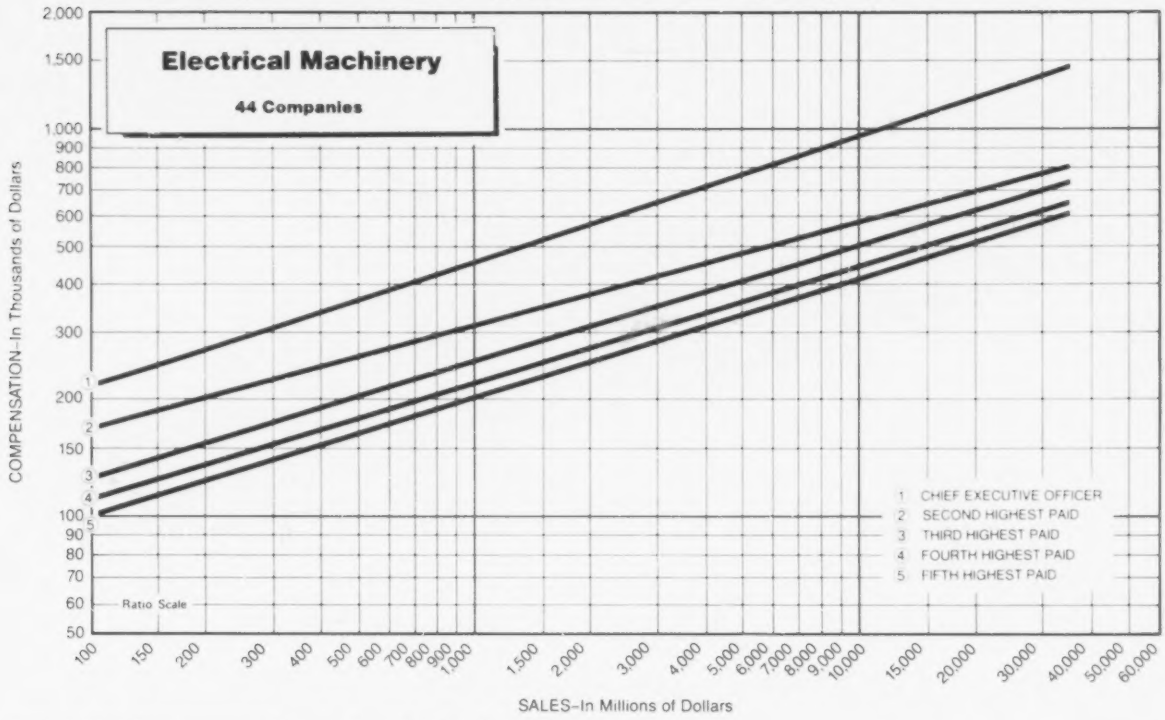


Chart 23: Compensation of the Five Highest Paid Executives, by Company Sales



each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below, as is the coefficient of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7115 + 0.3166 log X	78%
Second	log Y = 1.6695 + 0.2742 log X	80
Third	log Y = 1.4893 + 0.3033 log X	83
Fourth	log Y = 1.4729 + 0.2913 log X	81
Fifth	log Y = 1.4108 + 0.2986 log X	78

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7438 + 0.2591 log X	82%
Second	log Y = 1.7060 + 0.2189 log X	61
Third	log Y = 1.5586 + 0.2380 log X	74
Fourth	log Y = 1.4858 + 0.2458 log X	73
Fifth	log Y = 1.4475 + 0.2445 log X	75

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Forty of the 44 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Thirty-three of these companies made a bonus award for 1985 performance; thirty-six paid a bonus for 1984.

Seventeen of the companies have an executive incentive plan that is based on long-term corporate performance goals, and is usually called a **performance share or performance unit plan.** (For a description of payments during 1985, see page 13.)

Eight of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Forty-three of the companies have a **stock option plan**. Thirty-four of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; four grant only ISO's, four only nonqualified options, and one company did not respond. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 28 of the 38 companies that grant ISO's, and by 28 of the 38 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine of the 38 companies that grant ISO's. SAR's are provided by 12 of the 38 companies that grant nonqualified options.

Transportation Equipment

This industry includes manufacturers of equipment for transportation of passengers and cargo by land, water and air. (SIC: 37)

The Companies

Executive compensation data for this industry were obtained from 30 companies, classified below according to 1985 sales volume. The smallest company had sales of $144 million; the largest, $96 billion.

1985 Sales	*Number of Companies*	
$5 billion and over	10	Median Sales:
1–4,999 billion	8	$1.9 billion
300–999 million	9	Middle 50 percent:
100–299 million	3	$607 million to
Total	30	$8.2 billion

1985 Compensation

For each manufacturer in this industry, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation of each of the chief executive officers in this sample of 30 companies is plotted on Chart 24. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

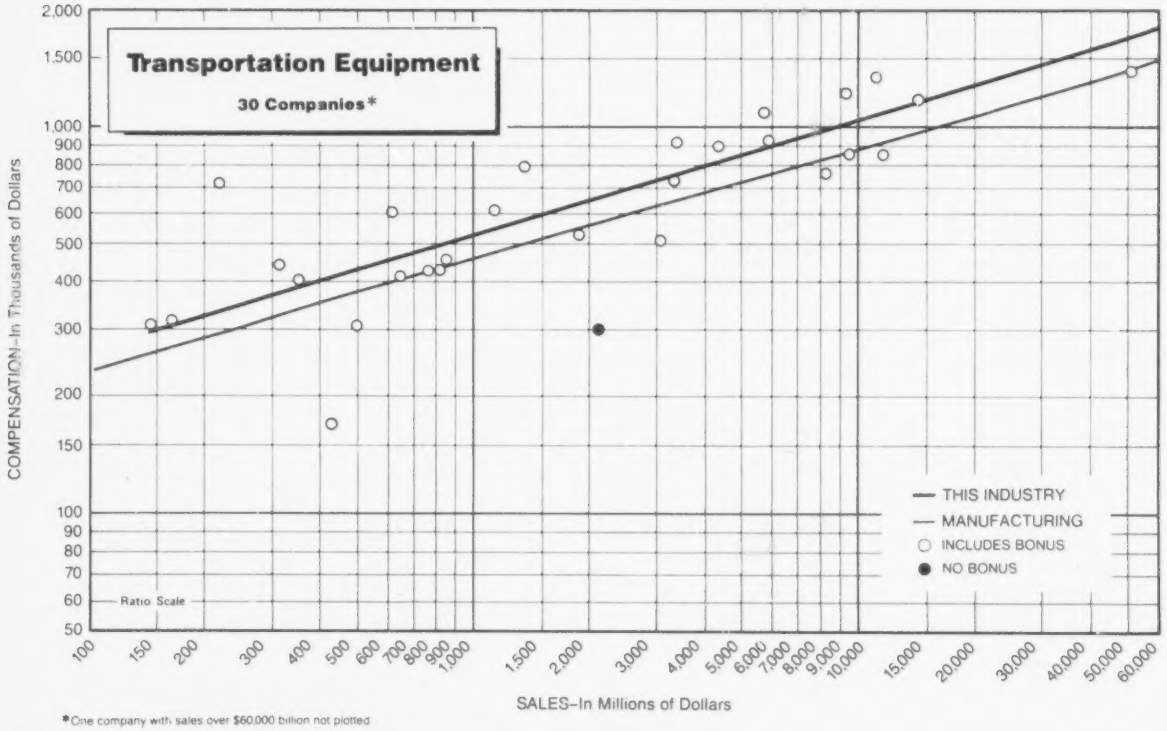
	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$604,000	$428,000 to $901,000
Second	440,000	250,000 to 630,000
Third	347,000	200,000 to 507,000
Fourth	273,000	183,000 to 470,000
Fifth	247,000	130,000 to 375,000

The ratio of the pay of each executive to that of the chief executive officer is shown below:

	Pay as Percentage of Chief Executive's Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	65%	58% to 76%
Third highest	53	46 to 63
Fourth highest	46	41 to 55
Fifth highest	41	32 to 46

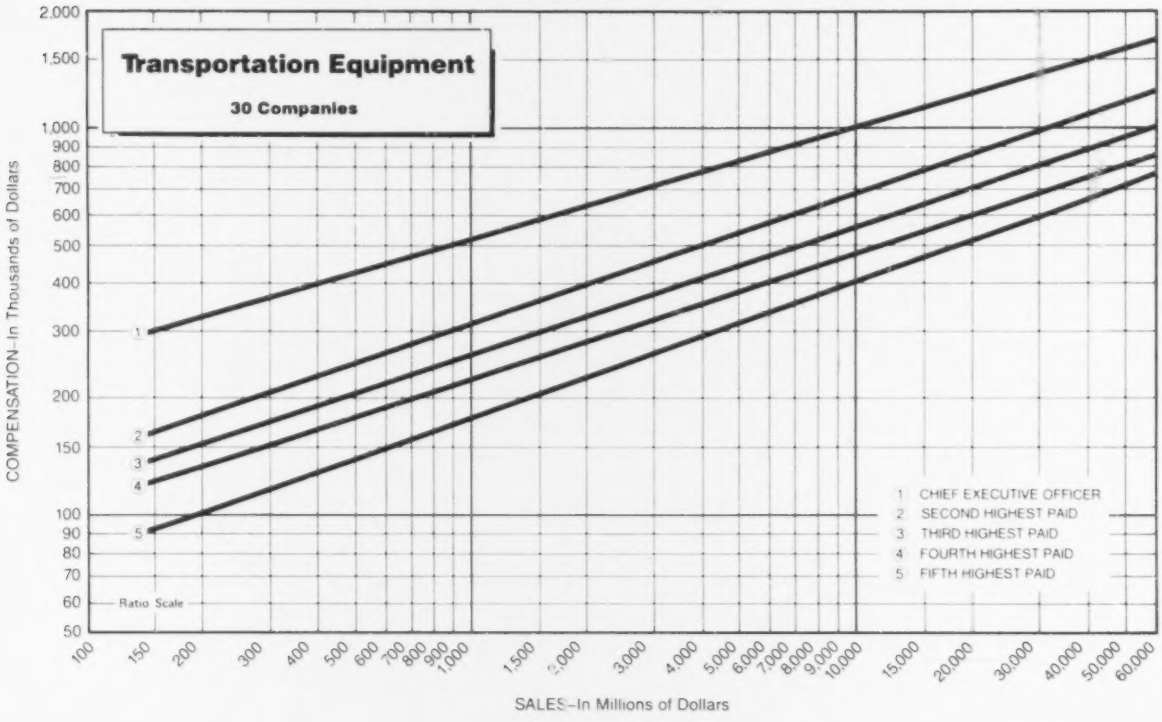
As the lines on Chart 25 illustrate, the total compensation of each of the five groups of executives is related positively to company sales volume. The regression formula for each of these lines is shown below. Also shown is the coefficient

Chart 24: Compensation of the Chief Executive, by Company Sales



*One company with sales over $60,000 billion not plotted

Chart 25: Compensation of the Five Highest Paid Executives, by Company Sales



of determination (r^2), which measures the percentage of the variation in compensation that is explained statistically by the variation in sales volume.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.8886 + 0.2726 log X	67%
Second	log Y = 1.4814 + 0.3393 log X	73
Third	log Y = 1.4354 + 0.3281 log X	69
Fourth	log Y = 1.3909 + 0.3238 log X	71
Fifth	log Y = 1.1495 + 0.3709 log X	87

In each case, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.

Base salary of the top-paid executives also is related to sales volume. The regression equation for each of the five executives is shown below, along with the coefficient of determination.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.8243 + 0.2294 log X	69%
Second	log Y = 1.4607 + 0.2833 log X	79
Third	log Y = 1.4253 + 0.2710 log X	76
Fourth	log Y = 1.4143 + 0.2568 log X	78
Fifth	log Y = 1.3387 + 0.2634 log X	85

Again, Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Executive Incentive Plans

Twenty-nine of the 30 companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's performance. (For an analysis of 1985 bonus awards, see page 11.) Twenty-seven of these companies made a bonus award for 1985 performance; all twenty-nine paid a bonus for 1984.

Fourteen of the companies have an executive incentive plan that is based on long-term corporate performance goals, usually called a **performance share or performance unit plan**. (For a description of payments during 1985, see page 13.)

Ten of the companies have a **restricted stock plan** under which grants of company stock are subject to forfeiture until earned out through continued employment. (For a description of the size of grants during 1985, see page 12.)

Twenty-seven of the companies have a **stock option plan**. Twenty-five of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; none grants only ISO's; one grants only nonqualified options; and one did not respond. (For an analysis of the size of grants and value at exercise during 1985, see page 13.)

Stock-for-stock exercise (stock swaps) is provided for by 21 of the 25 companies that grant ISO's, and by 22 of the 26 companies that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by twelve of the 25 companies that grant ISO's. SAR's are provided by 16 of the 26 companies that grant nonqualified options.

Chapter 4
Retail Trade

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 52 retailers, 15 percent of approximately all retailers with sales of $50 million or more. These 52 retailers are classified below according to 1985 sales volume.

	Retailers	
1985 Sales	*Number*	*Percent*
$3 billion and over	14	27%
1–2,999 billion	9	17
500–999 million	8	15
300–499 million	9	17
50–299 million	12	23
Total	52	100%

Median sales volume is $675 million, with the middle half ranging between $394 million and $3.2 billion.

Pay Trends

On the average, total compensation for 1985 (which includes bonus awards) was 9 percent greater than in 1984 for top executives in these retail firms. For example, in a sample of 42 chief executive officers in companies for which both 1984 and 1985 total compensation were available, the median increase was 9 percent, with the middle half ranging from a 3-percent to a 19-percent increase.

For 17 percent of these chief executive officer positions, total compensation was lower than in 1984; and for 5 percent it was unchanged. Among the 78 percent that show an increase, the median increase is 14 percent with the middle half ranging between 9 and 21 percent.

Eighty percent of the retailers with a bonus plan paid a bonus for 1985 performance; 80 percent also did so for 1984 performance. Bonus payments, as a percentage of base salary, were about the same. For example, the median bonus for chief executive officers represented 40 percent of salary for 1985, and 41 percent of salary for 1984 performance. However, among 23 companies that paid a bonus for both 1985 and 1984, the median dollar bonus for chief executive officers increased 9 percent, with the middle half ranging between a 21 percent decrease and a 31 percent increase.

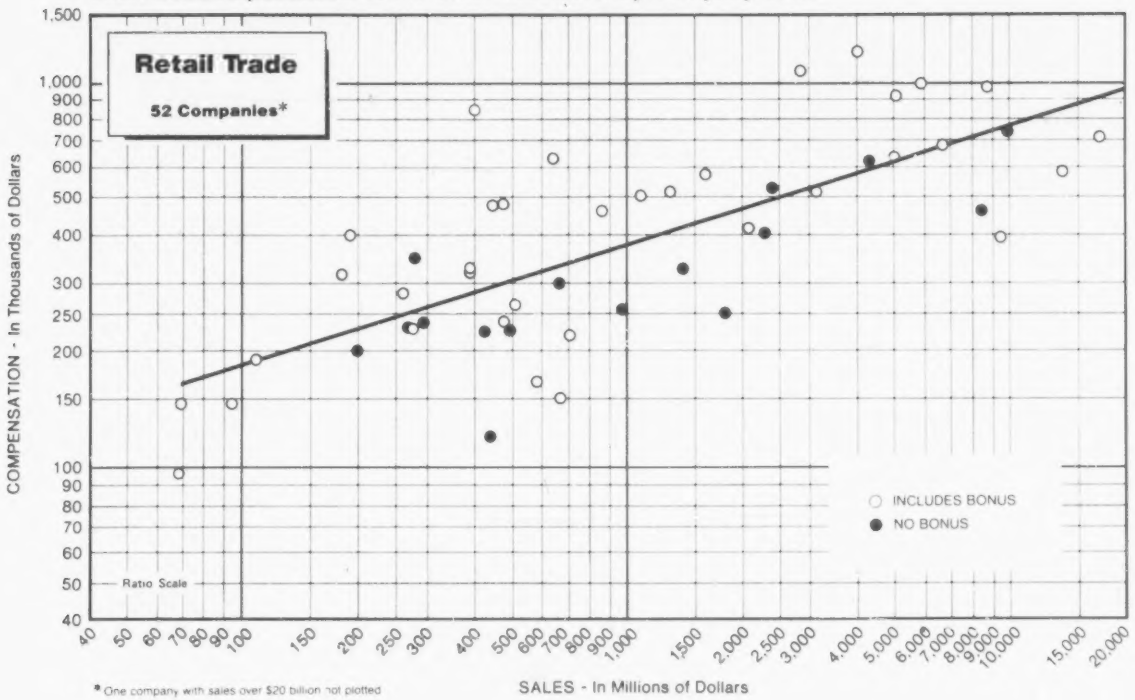
Total compensation also increased because of increases in base salary. For example, among the 41 companies for which both 1985 and 1984 base salary were available, the median increase for the chief executive officer position was 10 percent, with the middle half ranging between a 6-percent increase and an 16-percent increase. For 7 percent of these chief executive positions, salary was lower in 1985 than in 1984, and for 5 percent it was unchanged. Among the 88 percent that received an increase, the median is 12 percent, with the middle half between 9 and 18 percent.

As indicated below, the 10 percent salary increase for 1985 is the same as 1984 and higher than the preceding two years.[1] It is also higher than the 6-percent average increase in 1985 for all exempt employees. Average salary increases for the total exempt population are expected to decline in 1986 to 5.5 percent and to 5.0 percent in 1987.

		Percentage Increase in Salary	
Year	*Number of Companies*	*Median*	*Middle 50 Percent Range*
Total Exempt Employees			
1987 Estimate	42	5.0%	4.5% to 6.0%
1986 Estimate	49	5.5	5.0 to 6.0
1985 Actual	48	6.0	5.0 to 7.0
Chief Executive Officers			
1985	41	10%	16% to 6%
1984	43	10	4 to 18
1982-1983	49	8	0 to 16
1981–1982	58	8	0 to 15
1979–1981	47	26	15 to 34
1977–1979	48	20	5 to 40

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition*. The Conference Board, Report No. 875, 1985, p. 54. The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 48. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979–1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977–1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14.

Chart 26: Compensation of the Chief Executive, by Company Sales



*One company with sales over $20 billion not plotted

1985 Total Compensation

For each retailer, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 52 retailers is shown on Chart 26. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$396,000	$230,000 to $587,000
Second	249,000	169,000 to 425,000
Third	200,000	117,000 to 330,000
Fourth	162,000	110,000 to 264,000
Fifth	143,000	99,000 to 239,000

As the lines in Chart 27 show, there is a positive relationship between the level of total compensation and sales volume for all five executives. The correlation coefficients for the five lines are, respectively: .74, .77, .75, .79, and .81.

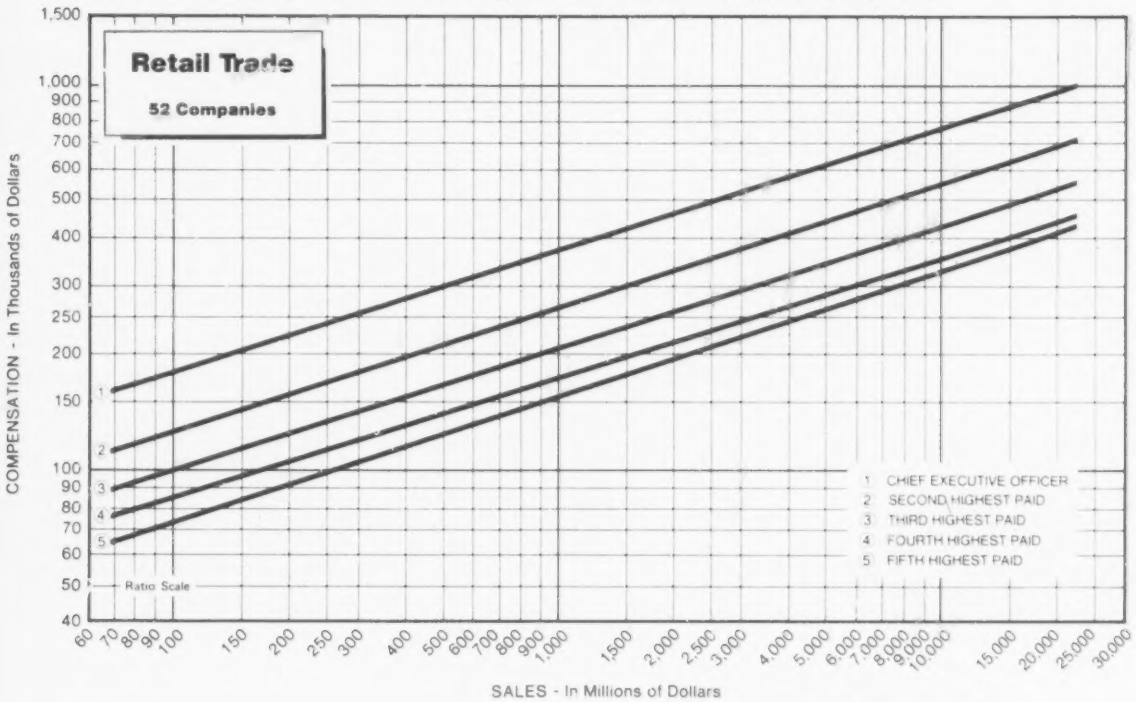
The regression lines on the chart can be used to determine the average compensation of an executive at any level of sales, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.)

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6469 + 0.3084 log X	55%
Second	log Y = 1.4446 + 0.3250 log X	60
Third	log Y = 1.3736 + 0.3139 log X	56
Fourth	log Y = 1.2899 + 0.3156 log X	63
Fifth	log Y = 1.2071 + 0.3268 log X	66

Although total compensation and sales are highly related, company size is not the sole determinant of compensation level. As the coefficients of determination (r^2) above indicate, the variation in sales statistically explains 55 to 66 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Chart 27: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation: Median	Middle 50 Percent Range
Second highest	74%	60% to 85%
Third highest	55	46 to 71
Fourth highest	46	37 to 61
Fifth highest	40	33 to 53

1985 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is sales volume stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.6360 + 0.2754 log X	58%
Second	log Y = 1.4502 + 0.2881 log X	61
Third	log Y = 1.3728 + 0.2828 log X	53
Fourth	log Y = 1.2658 + 0.2943 log X	60
Fifth	log Y = 1.2148 + 0.2980 log X	63

As the coefficients of determination (r^2) above indicate, the variation in sales statistically explains 53 to 63 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary: Median	Middle 50 Percent Range
Second highest	71%	62% to 87%
Third highest	61	47 to 72
Fourth highest	47	39 to 63
Fifth highest	44	36 to 54

These ratios closely resemble the total compensation ratios.

1985 Bonus Awards

Forty-five of the 52 retailers have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans have become more common among retailers over the past twelve years; in 1974 half of a comparable group of retailers had an annual incentive plan.[2] There is no particular relationship between the prevalence of these plans and the size of the company.

[2] *Top Executive Compensation 1974 Edition*, (out of print). The Conference Board, Report No. 640, 1974, p. 50.

Table 6: 1985 Bonus Awards and 1984 Median Bonus

1985 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
100% or more	2	6%	1	3%	–	–	–	–	–	–
75–99	4	12	2	6	1	3%	3	9%	2	6%
60–74	3	9	3	9	5	14	1	3	2	6
50–59	6	18	3	9	4	11	4	11	3	9
40–49	3	9	5	14	5	14	3	9	4	12
30–39	5	15	6	17	7	20	9	26	7	21
20–29	3	9	5	14	5	14	5	14	7	21
Less than 20%	8	24	10	29	8	23	10	29	9	26
Total	34	100%	35	100%	35	100%	35	100%	34	100%
Median Bonus	40%		33%		35%		35%		34%	
Middle 50% Range	19–59%		19–50%		20–50%		19–41%		20–44%	
1984 Median Bonus	**41%**		**33%**		**35%**		**30%**		**34%**	

Eighty percent of the 45 retailers with a bonus plan made an award for 1985 performance; 80 percent also paid a bonus for 1984. Among the 36 companies that paid a 1985 bonus, 31 paid an award for 1984. Among the nine companies that paid no bonus for 1985, five paid a 1984 bonus and four paid no bonus in either year.

As Table 6 indicates, the median award for chief executive officers (40 percent of salary) is higher than that of the other four executives (33 to 35 percent of salary). Compared with bonus awards for 1984, the 1985 medians are the same in three cases, 1 percent lower for the chief executives, and 5 percent higher for fourth highest paid executives.[3]

For each of the five executives the bonus award as a percentage of salary tends to increase with company size (Table 7).[4] The 1985 medians at each size level are mostly lower than in 1984.[5]

[3] *Top Executive Compensation 1986 Edition*, p. 57.

[4] Data are derived from regression equations based on the pay of executives in 36 companies with a bonus plan that paid a bonus. The equations are shown below; the coefficient of determination is shown in parentheses.

Total Compensation

Highest paid	$\log Y = 1.6206 + 0.3306 \log X$	(62%)
Second	$\log Y = 1.4374 + 0.3336 \log X$	(68%)
Third	$\log Y = 1.3613 + 0.3219 \log X$	(59%)
Fourth	$\log Y = 1.3172 + 0.3079 \log X$	(65%)
Fifth	$\log Y = 1.2538 + 0.3128 \log X$	(68%)

Base Salary

Highest paid	$\log Y = 1.5884 + 0.2889 \log X$	(64%)
Second	$\log Y = 1.4595 + 0.2802 \log X$	(66%)
Third	$\log Y = 1.3756 + 0.2762 \log X$	(57%)
Fourth	$\log Y = 1.3023 + 0.2748 \log X$	(64%)
Fifth	$\log Y = 1.2766 + 0.2713 \log X$	(65%)

[5] *Top Executive Compensation 1986 Edition*, p. 57.

Long-term Incentive Plans

Seven (14 percent) of the 52 retailers have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is less than the proportion of retailers that had a plan four years ago; 22 percent of 98 retailers reported a plan in 1982.[6]

Two retailers made a grant of restricted stock during 1985 to one or more of their five top-paid executives. Awards to four executives ranged from 9 to 143 percent of 1985 base salary.

Ten (19 percent) of the 52 retailers have an executive incentive plan based on the achievement of long-term corporate financial goals, and usually called a **performance share or performance unit plan.**[7] In 1982, 16 percent of 98 retailers reported such a plan.[8]

Five retailers made a payment during 1985 under these plans to at least one of the five top-paid executives. Payments to each of these 19 executives, converted to a percentage of 1985 salary, ranged from 3 to 108 percent, with the median payment representing 31 percent of base salary.

Seventy-three percent (38) of the 52 retailers have a **stock option plan.**[9] These plans are more common among the largest retailers; for example, 84 percent of the companies

[6] *Top Executive Compensation 1982 Edition*, p. 45. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

[7] For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[8] *Top Executive Compensation 1982 Edition*, p. 46.

[9] For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Table 7: 1985 and 1984 Bonus Awards (as Percent of Salary), by Company Size

Executive	Sales Volume $394 Million	$675 Million	$3.2 Billion
Chief Executive			
1985 Bonus	38%	41%	51%
Salary	$218,000	$255,000	$399,000
1984 Bonus	41%	45%	53%
Second Highest Paid			
1985 Bonus	31%	35%	46%
Salary	$154,000	$179,000	$277,000
1984 Bonus	39%	41%	47%
Third Highest Paid			
1985 Bonus	27%	30%	40%
Salary	$124,000	$144,000	$221,000
1984 Bonus	37%	38%	38%
Fourth Highest Paid			
1985 Bonus	26%	28%	35%
Salary	$104,000	$120,000	$184,000
1984 Bonus	29%	33%	38%
Fifth Highest Paid			
1985 Bonus	21%	24%	33%
Salary	$96,000	$111,000	$169,000
1984 Bonus	30%	33%	37%

with sales over $500 million have a plan compared with 78 percent of the companies with sales of $300 million to $500 million, and 42 percent of the retailers with sales in the $50 million to $300 million range.

Among the 38 companies with a stock option plan, 58 percent (22) provide for grants of *both* incentive stock options (ISO's) and nonqualified options; 11 plans grant only ISO's; and five only nonqualified options.

Twenty-two of the 38 retailers with a plan made a regular grant of stock options during 1985. Six of the companies granted *only* ISO's, five *only* nonqualified options, ten granted *both* ISO's and nonqualified options, and one company did not respond. Among the ten plans that granted both ISO's and nonqualified options, five limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

Twenty of the 22 retailers that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 83 executives is the equivalent of 90 percent of base salary, with the middle half ranging between 43 and 128 percent of 1985 base salary.

One or more of the five top-paid executives in 14 retailers exercised a stock option (or SAR) during 1985. The net gain realized in cash or stock (market value less option price) for 43 executives is shown below, converted to a percentage of 1985 base salary.

Gain at Exercise (Percent of Salary)	Executives Number	Percent
200% and over	5	12%
100–199	6	14
50–99	9	21
25–49	10	23
15–24	4	9
Less than 15%	9	21
Total	43	100%

The median gain is the equivalent of 45 percent of 1985 salary, with the middle half ranging from 18 to 106 percent of salary. The actual dollar gain for the 43 executives is shown below:

Dollar Gain at Exercise	Executives Number	Percent
$1 million and over	4	9%
300,000–999,000	12	28
200,000–299,000	5	12
100,000–199,000	5	12
50,000–99,000	5	12
25,000–49,000	4	9
Less than $25,000	8	19
Total	43	100%

The median gain is $172,000, with the middle half ranging between $39,000 and $367,000.

Stock-for-stock exercise (stock swaps) is provided for by 19 of the 33 plans that grant ISO's, and by 16 of the 27 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by ten of the 33 plans that grant ISO's. Most (9) limit SAR's to a small group of top management (essentially "insiders"); one plan grants SAR's to all ISO recipients. SAR's are provided by 11 of the 27 plans that grant nonqualified options. Most (10) limit SAR's to a small group of top management; the other plan grants SAR's to all nonqualified option recipients.

Chapter 5
Gas and Electric Utilities

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 86 gas and electric utilities, 62 percent of the gas and electric utilities with securities listed on the New York or American Stock Exchange. The 86 utilities are classified below according to 1985 operating revenue.

1985 Operating Revenue	*Utilities*	
	Number	*Percent*
$3 billion and over	17	20%
2–2,999 billion	6	7
1–1,999 billion	26	30
500–999 million	22	26
499 million and under	15	17
Total	86	100%

Median operating revenue was $1.2 billion, with the middle half of the utilities ranging between $580 million and $2.7 billion.

Pay Trends

On the average, total compensation for 1985 (which includes bonus awards) was 8 percent greater than in 1984 for top executives in these gas and electric utilities. For example, in a sample of 74 chief executive officers in companies for which both 1984 and 1985 total compensation were available, the median increase was 8 percent, with the middle half ranging from no increase to a 15-percent increase.

For 22 percent of these chief executive officer positions, total compensation for 1985 was lower than in 1984, and another 4 percent of the positions registered no gain. Among the 74 percent that show an increase, the median increase was 12 percent with the middle half ranging between 7 and 16 percent.

Fewer companies paid a bonus in 1985 than in 1984, and the size of the bonus paid was somewhat smaller. Sixty-six percent of the utilities with a bonus plan paid a bonus for 1985 performance, while 71 percent did so for 1984 performance. Bonus payments, as a percentage of base salary, were somewhat lower. For example, the median bonus for chief executive officers represented 26 percent of salary for 1985 and 30 percent of salary for 1984 performance. Among 17 companies that paid a bonus for both 1985 and 1984, the median change for chief executive officers was a decrease of 1 percent.

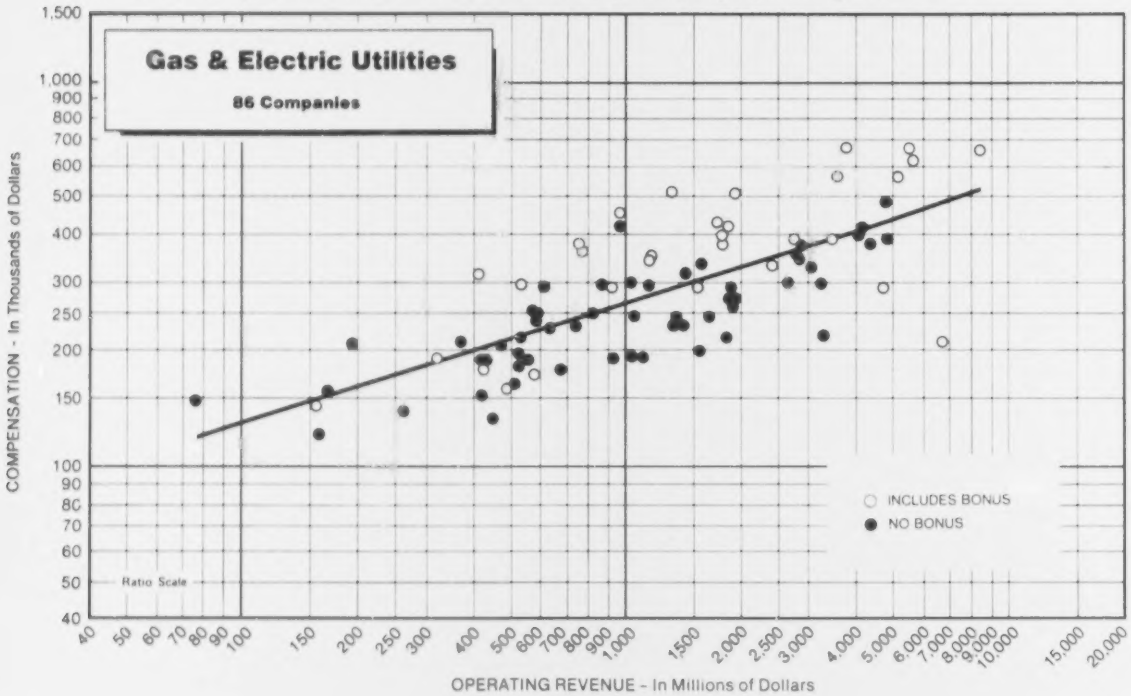
Total compensation increased because of increases in base salary. For example, among the 74 companies for which both 1985 and 1984 base salary were available, the median increase for the chief executive officer position was 8 percent, with the middle half ranging between a 4 and a 12 percent increase. For 19 percent of these chief executive positions, salary was lower in 1985 than in 1984, and for 5 percent it was unchanged. Among the 76 percent that received an increase, the median is 10 percent, with the middle half between 7 and 15 percent.

As indicated below, the 8-percent salary increase for 1985 is less than for 1984 (11 percent).[1] However, it is higher than the 6-percent average increase in 1985 for all exempt employees. Average increases for the total exempt population are expected to decline in 1986 to 5.5% and in 1987 to 5.0%

Year	*Number of Companies*	*Percentage Increase in Salary*	
		Median	*Middle 50 Percent Range*
Total Exempt Employees			
1987 Estimate	32	5.0%	4.0% to 5.9%
1986 Estimate	68	5.5	4.5 to 6.0
1985 Actual	78	6.0	5.3 to 6.3
Chief Executive Officers			
1985	74	8%	4% to 12%
1984	76	11	6 to 19
1982-1983	77	7	1 to 15
1981–1982	75	10	7 to 16
1979–1981	78	24	18 to 33
1977–1979	99	17	8 to 25

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition*. The Conference Board, Report No. 875, p. 59. The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 53. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979–1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977–1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14.

Chart 28: Compensation of the Chief Executive, by Company Operating Revenue



1985 Total Compensation

For each gas and electric utility, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 86 utilities is shown in Chart 28. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown here:

	1985 Total Compensation	
Compensation Rank	Median	Middle 50 Percent Range
Highest paid	$282,000	$202,000 to $377,000
Second	180,000	140,000 to 255,000
Third	149,000	116,000 to 207,000
Fourth	129,000	103,000 to 175,000
Fifth	117,000	96,000 to 157,000

As the data on Chart 29 show, there is a positive relationship between the level of total compensation and operating revenue for all five executives. The correlation coefficients for the five lines are, respectively: .75, .74, .77, .78, and .77.

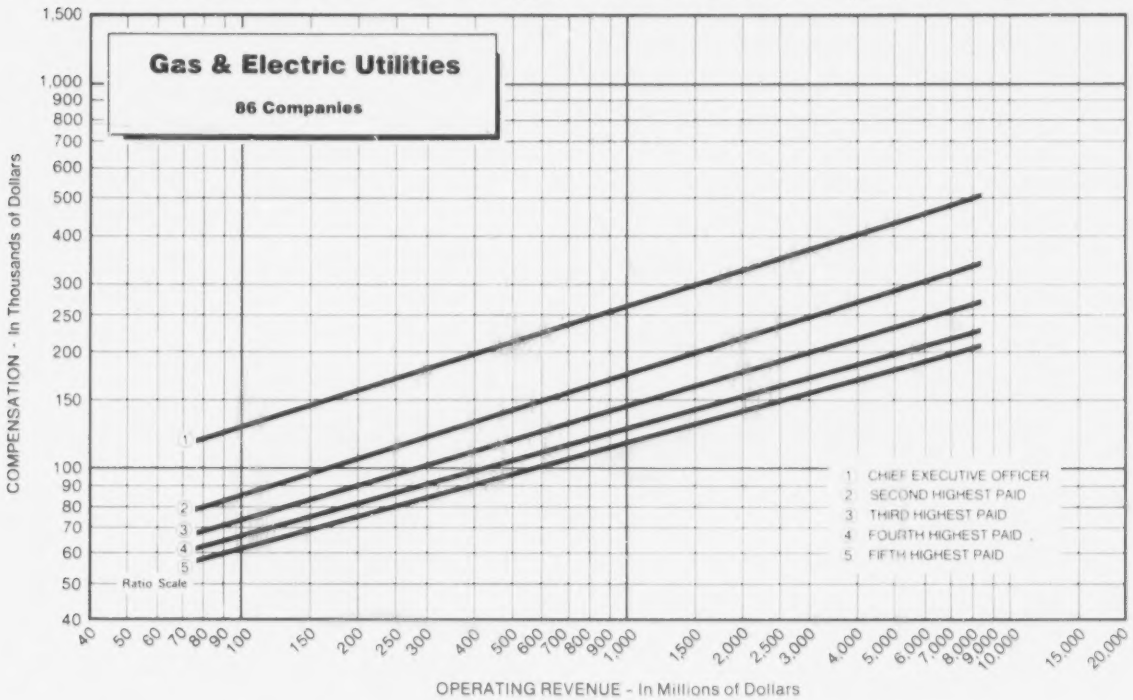
The regression lines on the chart can be used to determine the average compensation of an executive at any level of operating revenue, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is operating revenue stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.4819 + 0.3120 log X	56%
Second	log Y = 1.3115 + 0.3123 log X	55
Third	log Y = 1.2667 + 0.2995 log X	59
Fourth	log Y = 1.2814 + 0.2749 log X	60
Fifth	log Y = 1.2617 + 0.2686 log X	59

Although total compensation and operating revenue are related, company size is not the sole determinant of compensation level. As the coefficients of determination (r^2), above indicate, the variation in operating revenue statistically explains 55 to 60 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Chart 29: Compensation of the Five Highest Paid Executives, by Company Operating Revenue


Gas & Electric Utilities
86 Companies
COMPENSATION - In Thousands of Dollars
OPERATING REVENUE - In Millions of Dollars
Ratio Scale
1 CHIEF EXECUTIVE OFFICER
2 SECOND HIGHEST PAID
3 THIRD HIGHEST PAID
4 FOURTH HIGHEST PAID
5 FIFTH HIGHEST PAID

Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation: Median	Middle 50 Percent Range
Second highest	69%	62% to 76%
Third highest	56	50 to 62
Fourth highest	49	44 to 55
Fifth highest	43	39 to 51

1985 Salary

There is also a positive relationship between base salary and operating revenue. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is operating revenue stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.5761 + 0.2699 log X	58%
Second	log Y = 1.4078 + 0.2700 log X	58
Third	log Y = 1.3373 + 0.2665 log X	62
Fourth	log Y = 1.3706 + 0.2359 log X	62
Fifth	log Y = 1.3334 + 0.2371 log X	57

As the coefficients of determination (r^2) above indicate, the variation in operating revenue statistically explains 57 to 62 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary: Median	Middle 50 Percent Range
Second highest	69%	62% to 76%
Third highest	56	51 to 63
Fourth highest	49	44 to 55
Fifth highest	44	40 to 51

These ratios are practically the same as the total compensation ratios.

1985 Bonus Awards

Forty-one (48 percent) of the 86 gas and electric utilities have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans have become much more common among gas and electric utilities over the past twelve years. In 1974, only 8 percent of a comparable group of 111 utilities had an annual incentive plan; in 1980, only 13 percent.[2]

[2] *Top Executive Compensation 1974 Edition*, (out of print). The Conference Board, Report No. 640, 1974, p. 53; and *Top Executive Compensation 1980 Edition*, p. 49.

Twenty-seven of the 41 utilities with a bonus plan made an award for 1985 performance; 29 paid a bonus for 1984.

Among the 27 companies that paid a 1985 bonus, 25 also paid an award for 1984 but two did not. Among 14 that paid no bonus for 1985, four paid a 1984 bonus and ten paid no bonus in either year.

The 1985 bonus award was reported for the chief executive officers in 25 companies. The median bonus is 26 percent of salary, with the middle half ranging between 11 and 41 percent of base pay. (In 1984, the median bonus was 30 percent of salary for chief executive officers.)

Long-term Incentive Plans

Six of the 86 utilities have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is about the same proportion of utilities that had a plan four years ago; five of 86 companies reported a plan in 1982.[3] Only two companies made a grant during 1985.

Sixteen of the 86 gas and electric utilities have an executive incentive plan, based on the achievement of long-term corporate financial goals, usually called a **performance share or performance unit plan**.[4] In 1982, only three of 86 comparable utilities had a plan.[5]

Six companies made a payment to one or more of their five top-paid executives during 1985. The payments to 23 executives, converted to a percentage of salary, ranged from 5 to 228 percent; the median payment represented 15 percent of 1985 salary.

Twenty-one of the companies have a **stock option plan**.[6] Fifteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; five grant only ISO's; and one has only nonqualified options.

Twelve of the 21 gas and electric utilities with a plan made a regular grant of stock options during 1985. Five of the plans granted *only* ISO's; two *only* nonqualified options; and five granted *both* ISO's and nonqualified options. Among the five plans that granted both ISO's and nonqualified options, three limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

Nine utilities that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 41 executives is the equivalent of 79 percent of base salary, with the middle half ranging between 55 and 94 percent of 1985 salary.

Stock-for-stock exercise (stock swaps) is provided for by nine of the 20 plans that grant ISO's, and by eight of the 16 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by nine of the 20 plans that grant ISO's. Two of these limit SAR's to a small group of top management (essentially "insiders"); six grant SAR's to all option recipients; one company did not respond. SAR's are provided by 11 of the 16 plans that grant nonqualified options; three limit SAR's to a small group of top executives; eight grant SAR's to all nonqualified option recipients.

[3] For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

[4] For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[5] *Top Executive Compensation 1982 Edition*, p. 50.

[6] For an analysis of 189 ISO plans, see Harland Fox, Incentive Stock Option Plans. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 6
Commercial Banking

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 153 commercial banks, 36 percent of approximately all commercial banks with total deposits of $300 million or more. These 153 banks are classified below according to total deposits at the end of 1985.

	Banks	
1985 Total Deposits	*Number*	*Percent*
$5 billion and over	33	22%
2–4,999 billion	45	29
1–1,999 billion	32	21
600–999 million	29	19
500–599 million	11	7
300–499 million	3	2
Total	153	100%

Median total deposits are $2.0 billion, with deposits of the middle half of the banks ranging between $933 million and $4.4 billion.

Pay Trends

On the average, total compensation for top executives in these banks for 1985 (which includes bonus awards) was 12 percent greater than in 1984. For example, in a sample of 97 chief executive officers in companies for which both 1984 and 1985 total compensation were available, the median increase was 12 percent, with the middle half ranging from a 4 percent to a 22 percent increase.

For 14 percent of these chief executive officer positions, total compensation for 1985 was lower than in 1984 and another 4 percent registered no gain. Among the 82 percent that show an increase, the median is 14 percent, with the middle half ranging between 9 and 26 percent.

The incidence of bonus payments was somewhat greater in 1985 than in 1984. Ninety-one percent of the banks with a bonus plan paid a bonus for 1985 performance; 87 percent did so for 1984 performance. Generally, bonus payments, as a percentage of base salary, were slightly higher in 1985. For example, the median bonus for chief executive officers represented 35 percent of salary for 1985, and 34 percent of salary for 1984 performance. Finally, among 67 banks that paid a bonus for both 1985 and 1984, the median dollar increase for chief executive officers was 14 percent, with the middle half ranging between a decrease of 2 percent to a 33-percent increase.

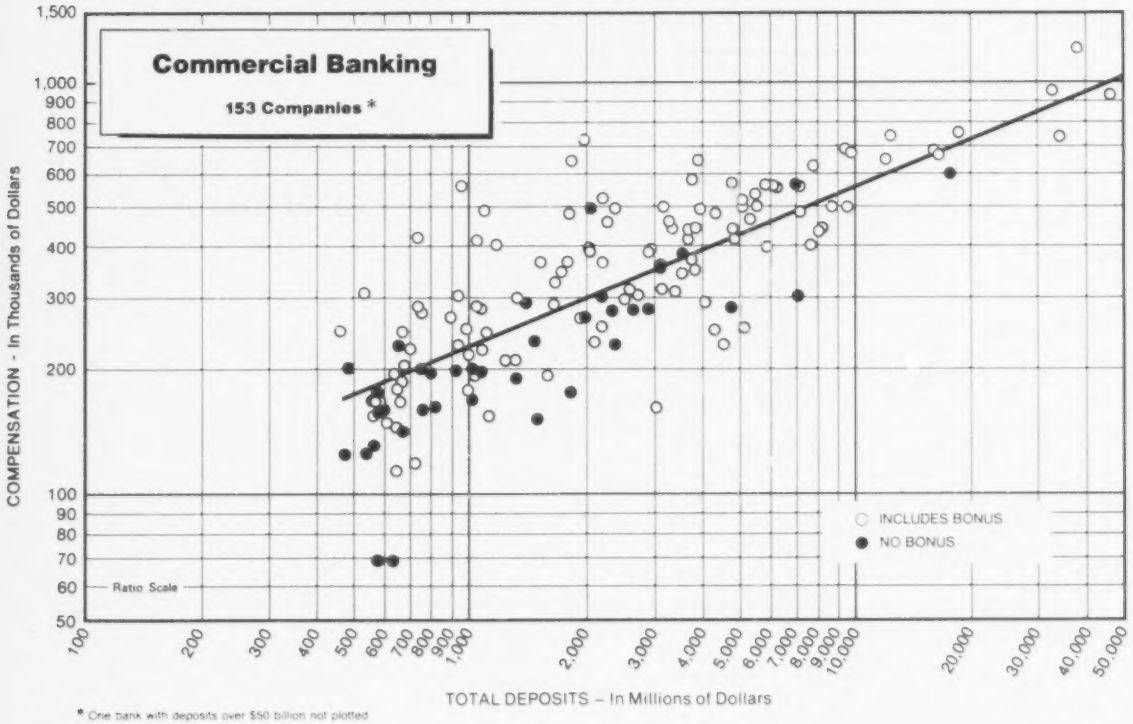
Total compensation also increased because of increases in base salary. For example, among the 97 banks for which both 1985 and 1984 base salary were available, the median increase for the chief executive officer position was 10 percent, with the middle half ranging between 7-percent and 15-percent. For 7 percent of these chief executive positions, salary was lower in 1985 than in 1984, and it was unchanged for 8 percent. Among the 85 percent that received an increase, the median is 12 percent, with the middle half between 10 and 16 percent.

As indicated below, the 10-percent salary increase is higher than in the preceding two years.[1] It is also higher than the 7-percent average increase in 1985 for all exempt employees. Average salary increases for the total exempt population are expected to decline to 6.0 percent a year in 1986 and 1987.

		Percentage Increase in Salary	
Year	*Number of Banks*	*Median*	*Middle 50 Percent Range*
Total Exempt Employees			
1987 Estimate	106	6.0%	5.5% to 6.5%
1986 Estimate	135	6.0	5.8 to 7.0
1985 Actual	140	7.0	6.0 to 7.5
Chief Executive Officers			
1985	97	10%	7% to 15%
1984	127	9	0 to 16
1982-1983	149	9	0 to 15
1981–1982	180	10	7 to 19
1979–1981	140	27	15 to 40
1977–1979	199	22	15 to 31

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition*. The Conference Board, Report No. 875, 1985, p. 63. The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 57. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, 1983, p. 7. The 1979–1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977–1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14.

Chart 30: Compensation of the Chief Executive, by Total Deposits



* One bank with deposits over $50 billion not plotted

1985 Total Compensation

Compensation data were obtained for the five highest paid executives of each commercial bank, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each bank is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 153 banks is shown in Chart 30. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

	1985 Total Compensation	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Highest paid	$301,000	$201,000 to $471,000
Second	205,000	135,000 to 300,000
Third	163,000	108,000 to 238,000
Fourth	143,000	90,000 to 192,000
Fifth	130,000	85,000 to 175,000

As the lines in Chart 31 suggest, there is a positive relationship between the level of total compensation and total deposits for all five executives. The correlation coefficients for the five lines are, respectively: .81, .84, .87, .88, and .88.

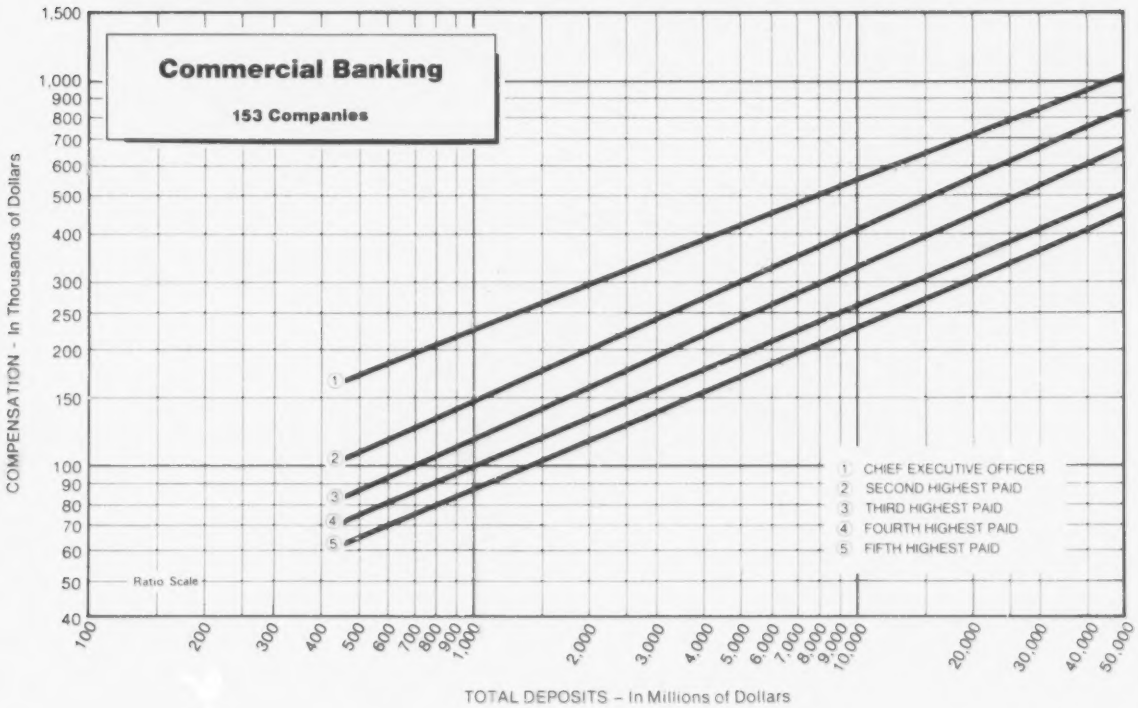
The regression lines on the chart can be used to determine the average compensation of an executive at any level of deposits, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is deposits stated in *millions* of dollars.)

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.1482 + 0.4003 log X	66%
Second	log Y = 0.8402 + 0.4402 log X	70
Third	log Y = 0.7289 + 0.4437 log X	75
Fourth	log Y = 0.6559 + 0.4456 log X	78
Fifth	log Y = 0.6255 + 0.4401 log X	78

Although total compensation and total deposits are related, bank size is not the sole determinant of compensation level. As the coefficients of determination (r^2) above indicate, the variation in deposits statistically explains 66 to 78 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Chart 31: Compensation of the Five Highest Paid Executives, by Total Deposits



Compensation Rank	Total Compensation as a Percentage of Chief Executive's Total Compensation	
	Median	Middle 50 Percent Range
Second highest	68%	59% to 81%
Third highest	52	44 to 62
Fourth highest	46	40 to 53
Fifth highest	40	35 to 48

1985 Salary

There is also a positive relationship between base salary and total deposits. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thousands* of dollars; X is total deposits stated in *millions* of dollars.)

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.3112 + 0.3200 log X	60%
Second	log Y = 0.9692 + 0.3728 log X	67
Third	log Y = 0.9450 + 0.3506 log X	68
Fourth	log Y = 0.8382 + 0.3656 log X	76
Fifth	log Y = 0.8388 + 0.3518 log X	73

As the coefficients of determination (r^2) above indicate, the variation in total deposits statistically explains 60 to 76 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown here:

Compensation Rank	Salary as a Percentage of Chief Executive's Salary	
	Median	Middle 50 Percent Range
Second highest	70%	59% to 80%
Third highest	54	46 to 64
Fourth highest	46	40 to 54
Fifth highest	42	36 to 51

These ratios are very close to the total compensation ratios.

1985 Bonus Awards

Eighty-two percent (126) of the 153 banks have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans become more common as the size of the bank increases. Fifty percent of the banks with total deposits under $500 million have a plan, compared with 65 percent of the banks with deposits in the $500 million to $1 billion range, and 91 percent of the banks with deposits of $1 bil-

Table 8: 1985 Bonus Awards and 1984 Median Bonus

1985 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
75% or more	8	7%	3	3%	6	5%	3	3%	4	4%
50–74	23	20	21	18	15	13	14	12	13	12
40–49	14	12	18	16	11	10	11	10	8	7
30–39	28	25	21	18	20	18	24	21	22	20
20–29	16	14	22	19	31	27	22	19	28	25
10–19	16	14	18	16	20	18	26	23	24	21
Less than 10%	8	7	11	10	10	9	14	12	14	12
Total	113	100%	114	100%	113	100%	114	100%	113	100%
Median Bonus	35%		31%		28%		28%		25 %	
Middle 50% Range	24–50%		20–48%		18–42%		16–39%		17–37%	
1984 Median Bonus	**34%**		**30%**		**29%**		**25%**		**23%**	

lion or more. These plans have become much more common among banks over the past twelve years; in 1974, only 25 percent of a comparable group of banks had an annual incentive plan.[2] In 1980, 55 percent had a plan.[3]

Ninety-one percent (115) of the 126 banks with a bonus plan made an award for 1985 performance; 87 percent paid a bonus for 1984. Among the 115 plans that paid a 1985 bonus, most (106) also paid a bonus for 1984, four did not, and five did not respond. Among eleven banks that paid no bonus for 1985, four paid a 1984 bonus; seven paid no bonus in either year.

As Table 8 indicates, the median 1985 award for chief executive officers (35 percent of salary), is somewhat higher than that of the other four executives (25 to 31 percent of salary). Compared with bonus awards for 1984, the 1985 medians range from 1 percent lower to 3 percent higher.[4]

For each of the five executives, the bonus award as a percentage of salary increases with bank size (Table 9).[5] The comparison with 1984 suggests that bonus awards, as a percentage of salary, are somewhat higher for 1985 performance, when bank size is taken into account.[6]

Long-term Incentive Plans

Twenty-nine of the 153 banks have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. Four years ago, 32 of a group of 243 banks had a plan.[7]

Restricted stock plans are more common among larger banks. For example, 25 percent of the banks with deposits of $1 billion or more have a plan, compared with 6 percent of the banks with deposits under $1 billion.

Ten banks made a grant of restricted stock to one or more of their five top-paid executives during 1985. The median grant to 29 executives, as a percentage of base salary, was 41 percent, with the middle half ranging between 17 and 49 percent of 1985 salary.

Twenty-eight (18 percent) of the 153 banks have an executive incentive plan based on the achievement of long-term corporate financial goals, and usually called a **performance share or performance unit plan.**[8] In 1982, 15 percent of 243 banks had a plan.[9] These plans are most common among the largest banks.

Eleven banks made a payment during 1985 under these plans to some of the five top-paid executives. Payments to

[2] *Top Executive Compensation 1974 Edition* (out of print). The Conference Board, Report No. 640, p. 58.

[3] *Top Executive Compensation 1980 Edition*, p. 53

[4] *Top Executive Compensation 1985 Edition*, p. 61.

[5] Data are derived from regression equations based on the pay of executives in 110 banks with a bonus plan that paid a bonus. The equations are shown below; the coefficient of determination is shown in parentheses.

Total Compensation		
Highest paid	$\log Y = 1.3421 + 0.3527 \log X$	(68%)
Second	$\log Y = 1.0356 + 0.3904 \log X$	(71%)
Third	$\log Y = 0.8762 + 0.4054 \log X$	(74%)
Fourth	$\log Y = 0.7806 + 0.4141 \log X$	(77%)
Fifth	$\log Y = 0.7263 + 0.4149 \log X$	(78%)
Base Salary		
Highest paid	$\log Y = 1.3877 + 0.2971 \log X$	(61%)
Second	$\log Y = 1.0534 + 0.3475 \log X$	(73%)
Third	$\log Y = 1.0011 + 0.3319 \log X$	(70%)
Fourth	$\log Y = 0.8613 + 0.3590 \log X$	(80%)
Fifth	$\log Y = 0.8592 + 0.3438 \log X$	(74%)

[6] *Top Executive Compensation 1986 Edition*, p. 66.

[7] *Top Executive Compensation 1982 Edition*, pp. 54-55. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin No. 159, 1984.

[8] For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[9] *Top Executive Compensation 1982 Edition*, p. 55.

Table 9: 1985 and 1984 Bonus Awards (as Percent of Salary), by Company Size

Executive	Total Deposits $933 Million	$2.0 Billion	$4.4 Billion
Chief Executive			
1985 Bonus	32%	37%	44%
Salary	$186,000	$234,000	$295,000
1984 Bonus	31%	36%	41%
Second Highest Paid			
1985 Bonus	29%	33%	37%
Salary	$122,000	$159,000	$209,000
1984 Bonus	25%	30%	37%
Third Highest Paid			
1985 Bonus	24%	31%	40%
Salary	$97,000	$125,000	$162,000
1984 Bonus	22%	28%	33%
Fourth Highest Paid			
1985 Bonus	21%	27%	34%
Salary	$84,000	$110,000	$145,000
1984 Bonus	19%	26%	32%
Fifth Highest Paid			
1985 Bonus	20%	26%	34%
Salary	$76,000	$99,000	$129,000
1984 Bonus	16%	23%	29%

43 executives, converted to a percentage of 1985 salary, ranged from under 1 percent to 150 percent, with the median payment representing 44 percent of base salary, and the middle 50-percent range from 19 to 64 percent.

Sixty-one percent (94) of the 153 banks have a **stock option plan**.[10] Plans become more common as the size of the bank increases; for example, only 24 percent of the banks with deposits under $1 billion have a plan compared with 84 percent of the banks with deposits of $1 billion or more.

Among the 94 banks with a stock option plan, 78 percent (73) provide for grants of *both* ISO's and nonqualified options; 17 grant only ISO's; and four only nonqualified options.

Fifty-six of the 94 banks with a plan made a regular grant of stock options during 1985. Fifteen of the banks granted *only* ISO's, five *only* nonqualified options, and thirty-six granted *both* ISO's and nonqualified options. Among the 36 plans that granted both ISO's and nonqualified options, 31 limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

Fifty-one of the 56 banks that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 229 executives is the equivalent of 86 percent of base salary, with the middle half ranging between 52 and 135 percent of 1985 base salary.

One or more of the five top-paid executives in 40 banks exercised a stock option (or SAR) during 1985. The net gain realized in cash or stock (market value less option price) for 124 executives is shown below, converted to a percentage of 1985 base salary.

Gain at Exercise (Percent of Salary)	Executives Number	Percent
200% and over	14	11%
100–199	25	20
50–99	31	25
30–49	25	20
20–29	10	8
10–19	12	10
Less than 10%	7	6
Total	124	100%

The median gain is the equivalent of 58 percent of 1985 salary, with the middle half ranging between 30 and 123 percent of salary. The median for chief executive officers is 63 percent of salary; for the second highest paid, 54 percent; for the third, 41 percent; for the fourth, 61 percent; and for the fifth highest paid, 97 percent of base salary. The actual dollar gain for all executives is shown below:

Dollar Gain at Exercise	Executives Number	Percent
$500,000 and over	15	12%
200,000–499,000	27	22
100,000–199,000	27	22
50,000–99,000	29	23
25,000–49,000	11	9
10,000–24,000	12	10
Less than $10,000	3	2
Total	124	100%

The median gain is $108,000, with the middle half ranging between $55,000 and $240,000. The median gain for chief executive officers is $158,000; for the second highest paid, $103,000; for third highest paid, $87,000; for fourth highest paid, $91,000; and for fifth highest paid, $141,000.

Stock-for-stock exercise (stock swaps) is provided for by 62 of the 90 plans that grant ISO's, and by 55 of the 77 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 37 of the 90 plans that grant ISO's. Twenty-four limit SAR's to a small group of top management (essentially "insiders"); the other 13 plans grant SAR's to all ISO recipients. SAR's are provided by 38 of the 77 plans that grant nonqualified options. Twenty-three limit SAR's to a small group of top management; the other 15 plans grant SAR's to all nonqualified option recipients.

[10]For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 7
Insurance

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 114 insurance companies, 35 percent of approximately all life insurance and property and casualty insurance companies with premium income of $50 million or more. These 114 carriers are classified below according to total premium income from all lines during 1985.

1985 Premium Income	*Total Companies*	*Life*	*Property and Casualty*
$2 billion and over	19	10	9
1–1,999 billion	13	7	6
500–999 million	15	12	3
300–499 million	19	10	9
200–299 million	16	12	4
100–199 million	29	20	9
99 million and under	3	1	2
Total	114	72	42

The median premium income for all companies is $341 million, with the middle half ranging from $183 million to $1.1 billion. For life insurance companies, median premium income is $338 million compared with $353 million for property and casualty companies. For the 62 stock companies, median premium income is $309 million; for the 52 mutual companies, $430 million.

Pay Trends

On the average, total compensation for 1985 (which includes bonus awards) was ten percent greater than in 1984 for top executives in these insurance companies. For example, in a sample of 90 chief executive officers in companies for which both 1984 and 1985 total compensation were available, the median increase was ten percent, with the middle half ranging from no increase to an increase of 20 percent. For 20 percent of these chief executive officer positions, total compensation for 1985 was lower than in 1984, and another 6 percent registered no gain. Among the 74 percent that showed a gain, the median increase was 16 percent, with the middle half ranging between 9 and 24 percent.

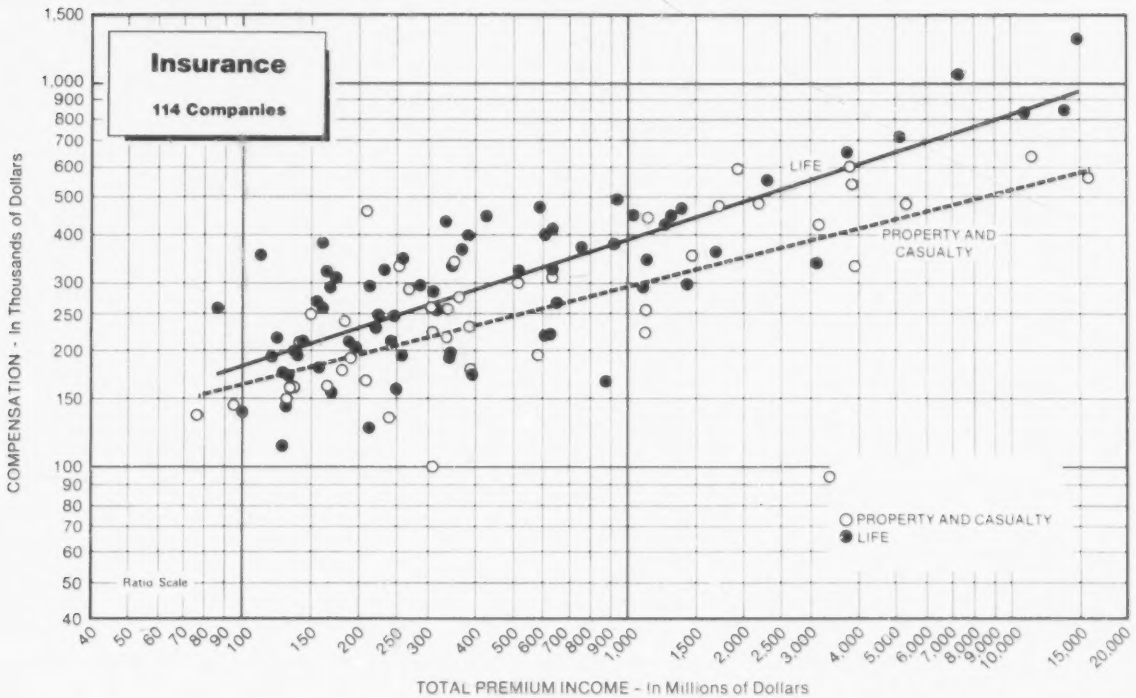
Some of the increase in total compensation is due to increased bonus payments. Eighty-five percent of the carriers with a bonus plan paid a bonus for 1985 performance, while 81 percent did so for 1984 performance. In addition, bonus payments, as a percentage of base salary, were somewhat higher. For example, the median bonus for chief executive officers represented 32 percent of salary for 1985, and 25 percent of salary for 1984 performance. Among 43 companies that paid a bonus for both 1985 and 1984, the median dollar bonus for chief executive officers showed a 15-percent increase, with the middle half ranging between no increase and a 76-percent increase.

Total compensation also increased because of increases in base salary. For example, among the 89 companies for which both 1985 and 1984 base salary were available, the median increase for the chief executive officer position was 9 percent, with the middle half ranging between no increase and a 16-percent increase. For 11 percent of these chief executive positions, salary was lower in 1985 than in 1984, and for 18 percent it was unchanged. Among the 71 percent that received an increase, the median is 12 percent, with the middle half between 9 and 18 percent.

As indicated below, the 9-percent salary increase is less than the 1984 increase of 10 percent.[1] However, it is higher than the 6.5 percent average increase in 1985 for all exempt employees. Average salary increases for the total exempt population are expected to decline to 6.0 percent in both 1986 and 1987.

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition*. The Conference Board, Report No. 875, 1985, p. 70. The 1983 changes are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, 1984, p. 70. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 854, 1984, p. 63. The 1979–1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 11. The 1977–1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 14.

Chart 32: Compensation of the Chief Executive, by Total Premium Income



Year	Number of Companies	Percentage Increase in Salary: Median	Percentage Increase in Salary: Middle 50 Percent Range
Total Exempt Employees			
1987 Estimate	70	6.0%	5.5% to 6.5%
1986 Estimate	106	6.0	6.0 to 7.0
1985 Actual	108	6.5	6.0 to 7.0
Chief Executive Officers			
1985	89	9%	0% to 16%
1984	110	10	5 to 14
1982–1983	106	6	0 to 12
1981–1982	111	10	1 to 17
1979–1981	88	26	17 to 35
1977–1979	135	22	13 to 32

1985 Total Compensation

For each insurance company, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 114 insurance companies is shown in Chart 32. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

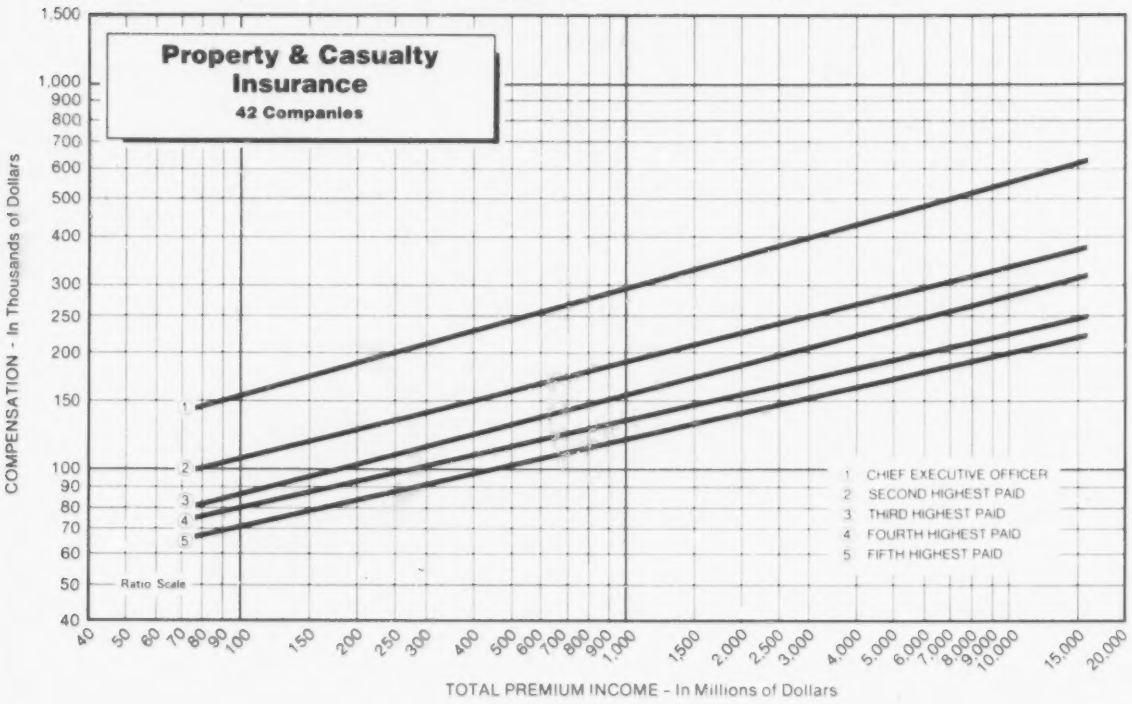
Compensation Rank	1985 Total Compensation: Median	1985 Total Compensation: Middle 50 Percent Range
Highest paid	$272,000	$195,000 to $414,000
Second	168,000	130,000 to 260,000
Third	141,000	104,000 to 206,000
Fourth	123,000	92,000 to 168,000
Fifth	114,000	86,000 to 160,000

As Charts 32, 33 and 34 indicate, there is a positive relationship between total premium income and total compensation for top executives in life insurance companies and in property and casualty companies.

The regression equations for the executives in the 42 property and casualty companies are shown below. As the coefficients of determination (r^2) indicate, the variation in total premium income statistically explains 46 to 51 percent of the variation in total compensation of the five top-paid executives.

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.7048 + 0.2555 log X	46%
Second	log Y = 1.5390 + 0.2496 log X	47
Third	log Y = 1.4332 + 0.2552 log X	47
Fourth	log Y = 1.4119 + 0.2402 log X	51
Fifth	log Y = 1.3909 + 0.2308 log X	51

Chart 33: Compensation of the Five Highest Paid Executives, by Total Premium Income



The regression equations for the five top-paid executives in the 72 life insurance companies are shown below. These co-efficients of determination (r^2) indicate that the variation in premium income statistically explains 61 to 73 percent of the variation in total compensation of the executives.[1]

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.5905 + 0.3352 log X	63%
Second	log Y = 1.3706 + 0.3509 log X	61
Third	log Y = 1.3067 + 0.3390 log X	69
Fourth	log Y = 1.2628 + 0.3345 log X	71
Fifth	log Y = 1.1978 + 0.3433 log X	73

The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Compensation Rank	*Total Compensation as a Percentage of Chief Executive's Total Compensation*	
	Median	*Middle 50 Percent Range*
Second highest	67%	59% to 80%
Third highest	53	47 to 63
Fourth highest	47	40 to 54
Fifth highest	44	35 to 48

These ratios are essentially the same in life insurance companies and property and casualty companies.

1985 Salary

There is a positive relationship between base salary and total premium income. The regression equations for executives in the 42 property and casualty companies are shown below. As the coefficients of determination (r^2) indicate, the variation in premium income statistically explains 47 to 55 percent of the variation in base salary.

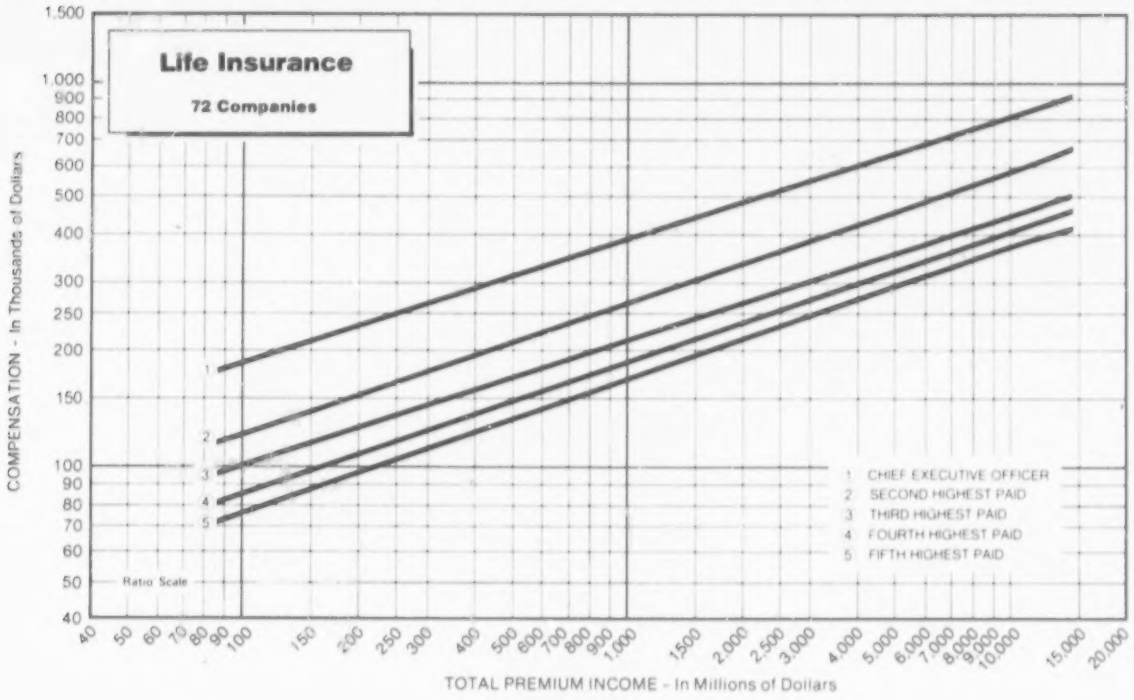
Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6564 + 0.2547 log X	54%
Second	log Y = 1.5118 + 0.2431 log X	53
Third	log Y = 1.3987 + 0.2507 log X	47
Fourth	log Y = 1.3689 + 0.2413 log X	55
Fifth	log Y = 1.3694 + 0.2260 log X	51

[1]The regression equations for the five executives when all companies are combined are shown below; the percent in parentheses is the coefficient of determination.

Highest paid	log Y = 1.6589 + 0.2995 log X	(53%)
Second	log Y = 1.4619 + 0.3020 log X	(52%)
Third	log Y = 1.3798 + 0.2977 log X	(56%)
Fourth	log Y = 1.3462 + 0.2885 log X	(58%)
Fifth	log Y = 1.3002 + 0.2894 log X	(59%)

In each case, Y is total compensation stated in *thousands* of dollars; X is total premium income stated in *millions* of dollars

Chart 34: Compensation of the Five Highest Paid Executives, by Total Premium Income


Life Insurance
72 Companies
COMPENSATION - In Thousands of Dollars
TOTAL PREMIUM INCOME - In Millions of Dollars
Ratio Scale
1 CHIEF EXECUTIVE OFFICER
2 SECOND HIGHEST PAID
3 THIRD HIGHEST PAID
4 FOURTH HIGHEST PAID
5 FIFTH HIGHEST PAID

The regression equations for the executives in the 72 life insurance companies are shown below. The coefficients of determination indicate that the variation in premium income statistically explains 57 to 73 percent of the variation in base salary.[1]

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.6486 + 0.2798 log X	57%
Second	log Y = 1.4705 + 0.2846 log X	59
Third	log Y = 1.3734 + 0.2869 log X	68
Fourth	log Y = 1.3432 + 0.2803 log X	72
Fifth	log Y = 1.2697 + 0.2934 log X	73

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

	Salary as a Percentage of Chief Executive's Salary	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	68%	59% to 80%
Third highest	54	48 to 64
Fourth highest	49	43 to 56
Fifth highest	45	39 to 51

These ratios differ very little from those for total compensation.

1985 Bonus Awards

Seventy-eight (68 percent) of the 114 insurance companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's corporate performance. These plans have become much more common among insurance companies over the past twelve years; in 1974, only 35 percent of a roughly comparable group of life insurance, fire, marine and casualty companies had an annual incentive plan.[4] By 1980, 52 percent had a plan.[5]

Plans are found with slightly less frequency among property and casualty companies (62 percent) than among

[1] The regression equations for the five executives when all companies are combined are shown below; the percent in the parentheses is the coefficient of determination.

Highest paid	log Y = 1.6642 + 0.2657 log X	(55%)
Second	log Y = 1.5020 + 0.2629 log X	(55%)
Third	log Y = 1.3986 + 0.2673 log X	(57%)
Fourth	log Y = 1.3701 + 0.2591 log X	(61%)
Fifth	log Y = 1.3275 + 0.2602 log X	(60%)

In each case Y is salary stated in *thousands* of dollars and X is total premium income stated in *millions* of dollars.

[4] *Top Executive Compensation 1974 Edition* (out of print). The Conference Board, Report No. 640, 1974, p. 62.

[5] *Top Executive Compensation 1980 Edition*, p. 59.

Table 10: 1985 Bonus Awards and 1984 Median Bonus

1985 Bonus Award (Percent of Salary)	Chief Executives		Second Highest Paid		Third Highest Paid		Fourth Highest Paid		Fifth Highest Paid	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
60% or more	11	17%	5	8%	5	8%	3	5%	3	5%
50–59	4	6	5	8	1	2	1	2	1	2
40–49	5	8	4	6	6	9	7	11	3	5
30–39	16	25	11	17	14	22	8	13	10	16
20–29	11	17	16	25	19	29	20	31	18	29
10–19	13	20	18	28	13	20	11	17	18	29
Less than 10%	4	6	6	9	7	11	14	22	10	16
Total	64	100%	65	100%	65	100%	64	100%	63	100%
Median Bonus	32%		25%		26%		22%		21%	
Middle 50% Range	18–44%		17–36%		15–36%		10–31%		12–31%	
1984 Median Bonus	**25%**		**24%**		**22%**		**17%**		**18%**	

life companies (72 percent). A larger proportion of stock (74 percent) than mutual (61 percent) companies have a plan.

Eighty-five percent (66) of the 78 carriers with a bonus plan made an award for 1985 performance; 81 percent paid a bonus for 1984. Among the 66 companies that paid a 1985 bonus, most (59) also paid a 1984 bonus but seven did not. Among 12 companies that paid no bonus for 1985, four paid a bonus for 1984; the other eight paid no bonus in either year.

As Table 10 indicates, the median award for chief executive officers (32 percent of salary) is somewhat higher than that of the other four executives (21 to 26 percent). Compared with bonus awards for 1984, the 1985 medians are 1 to 7 percentage points higher.[8]

For each of the top five executives, the bonus award as a percentage of salary, tends to increase with company size (Table 11).[9] Again, the 1985 medians are higher at each size level than the 1984 medians.[8]

[8] *Top Executive Compensation 1986 Edition*, p. 73.

[9] Data are derived from regression equations based on the pay of executives in 70 companies with a bonus plan that paid a bonus for 1983. The equations are shown below; the coefficient of determination is in parentheses.

Total Compensation		
Highest paid	$\log Y = 1.7321 + 0.2878 \log X$	(47%)
Second	$\log Y = 1.4663 + 0.3184 \log X$	(50%)
Third	$\log Y = 1.3695 + 0.3166 \log X$	(53%)
Fourth	$\log Y = 1.3253 + 0.3089 \log X$	(56%)
Fifth	$\log Y = 1.2866 + 0.3073 \log X$	(58%)
Base Salary		
Highest paid	$\log Y = 1.6397 + 0.2723 \log X$	(50%)
Second	$\log Y = 1.4749 + 0.2750 \log X$	(51%)
Third	$\log Y = 1.3515 + 0.2843 \log X$	(50%)
Fourth	$\log Y = 1.3213 + 0.2768 \log X$	(58%)
Fifth	$\log Y = 1.2883 + 0.2751 \log X$	(57%)

[8] *Top Executive Compensation 1986 Edition*, p. 73.

Long-term Incentive Plans

Nine of the 62 stock companies have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. This is about the same proportion of companies with a plan as in 1982; 12 of 76 stock companies reported a plan then.[8]

Four stock companies made a grant of restricted stock during 1985 to one or more of their five top-paid executives. The median grant to 13 executives, as a percentage of 1985 base salary, was 69 percent.

Twenty-two (19 percent) of the 114 insurance companies have an executive incentive plan, usually called a **performance share or performance unit plan**, based on the achievement of long-term corporate financial goals.[10] In 1982, 17 percent (24) of 143 carriers had a plan.[11] Similarly, twenty-eight percent of the 47 companies with premium income of $500 million or more have a plan, but only 14 percent of the 67 smaller carriers.

During 1985, 12 companies made a payment under these plans to some of the five top-paid executives. As a percentage of 1985 salary, payments to these 50 executives ranged from 3 to 96 percent, with the median payment representing 21 percent of base salary. The middle 50-percent range was between 12 and 31 percent of 1985 base salary.

Forty-five percent (28) of the 62 stock companies have a **stock option plan**.[12] Seventeen (61 percent) of the plans

[8] *Top Executive Compensation 1982 Edition*, p. 79. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin, No. 159, 1984.

[10] For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[11] *Top Executive Compensation 1982 Edition*, p. 80.

[12] For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Table 11: 1985 and 1984 Bonus Awards (as Percent of Salary), by Company Size

Executive	Total Premium Income		
	$183 Million	*$341 Million*	*$1.1 Billion*
Chief Executive			
1985 Bonus	34%	36%	38%
Salary	$181,000	$214,000	$294,000
1984 Bonus	25%	27%	32%
Second Highest Paid			
1985 Bonus	23%	26%	33%
Salary	$125,000	$149,000	$205,000
1984 Bonus	17%	20%	26%
Third Highest Paid			
1985 Bonus	23%	26%	28%
Salary	$99,000	$118,000	$169,000
1984 Bonus	19%	20%	23%
Fourth Highest Paid			
1985 Bonus	19%	22%	26%
Salary	$89,000	$106,000	$146,000
1984 Bonus	15%	18%	23%
Fifth Highest Paid			
1985 Bonus	17%	21%	25%
Salary	$82,000	$97,000	$134,000
1984 Bonus	12%	16%	22%

provide for grants of *both* incentive stock options (ISO's) and nonqualified options; seven grant only ISO's and four, only nonqualified options.

Twenty-two of the 28 stock companies with a plan made a regular grant of stock options during 1985. Eleven of the plans granted *only* ISO's; two granted *only* nonqualified options; the other nine granted *both* ISO's and nonqualified options. Among the 9 plans that granted *both* ISO's and nonqualified options, six limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

Nineteen of the 22 stock companies that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 79 executives is the equivalent of 54 percent of base salary, with the middle half ranging between 38 and 115 percent of 1985 base salary.

One or more of the five top-paid executives in 11 stock companies exercised a stock option (or SAR) during 1985. The median net gain realized in cash or stock (market value less option price) for 29 executives is the equivalent of 41 percent of 1985 salary, with the middle half ranging between 27 and 87 percent of base salary. The median dollar gain was $104,000 with the middle half ranging between $46,000 and $182,000.

Stock-for-stock exercise (stock swaps) is provided for by eight of the 24 plans that grant ISO's, and by nine of the 21 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by 11 of the 24 plans that grant ISO's. Six of these plans limit SAR's to a small group of top executives (essentially "insiders"); the other five plans grant SAR's to all ISO recipients. SAR's are provided by 11 of the 21 plans that grant nonqualified options. Seven plans limit SAR's to a small group of top management; the other four grant SAR's to all nonqualified option recipients.

Chapter 8
Construction

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 51 construction companies, 26 percent of the 200 largest. These 51 construction companies are classified below according to 1985 sales volume.

1985 Sales	Number of Companies	Companies Whose Stock is: Traded	Not Traded
$500 million and over	11	9	2
200–499 million	11	2	9
100–199 million	16	4	12
50–99 million	8	1	7
Less than 50 million	5	–	5
Total	51	16	35

The median sales for the group is $163 million, with the middle half ranging between $85 million and $436 million. Most (35) of the companies do not have stock traded on an organized exchange. They are relatively small companies and are engaged primarily in construction, with little or no design activity. The median sales volume of the group is $148 million. The 16 publicly held companies are larger; their median sales volume is $785 million.

Pay Trends

On the average, total compensation for 1985 (which includes bonus awards) was 4 percent greater than in 1984 for top executives in these construction companies. For example, in a sample of 36 chief executive officers from companies for which both 1984 and 1985 total compensation were available, the median company reported a 4-percent increase, with the middle half ranging from a decrease of 4 percent to an increase of 21 percent. For 31 percent of these chief executive officer positions, total compensation for 1985 was lower than for 1984 and another 11 percent registered no gain. Among the 58 percent that show an increase, the median is 17 percent, with the middle half ranging between 5 and 30 percent.

While total compensation increased, bonus payments did not. As a percentage of base salary, the chief executive officers' median bonus decreased from 45 to 41 percent, while the median bonus for three of the other four positions was somewhat lower in 1985 than in 1984. Among companies that paid a bonus for both 1985 and 1984, the typical chief executive's bonus remained unchanged.

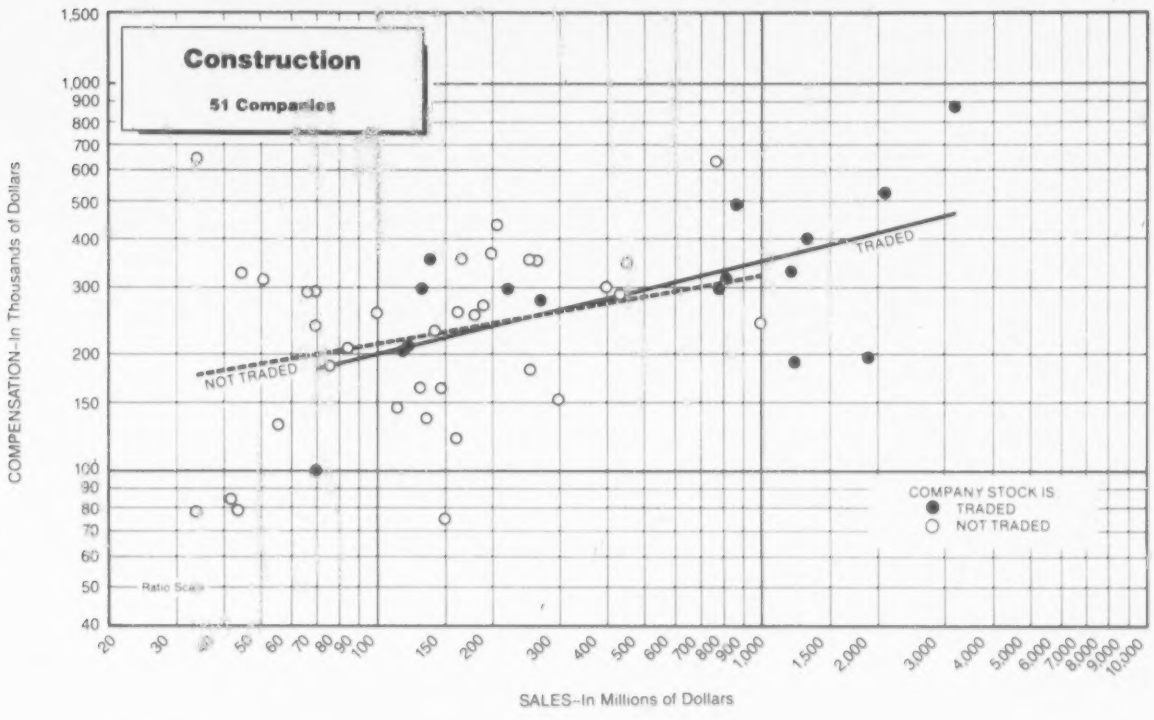
Total compensation increased because of increases in base salary. For example, among the 36 companies for which both 1985 and 1984 base salary were available, the median increase for the chief executive position was 5 percent, with the middle half ranging between no increase and a 12-percent increase. For 19 percent of these chief executive positions, salary was lower in 1985 than in 1984, and for 14 percent it was unchanged. Among the 67 percent that received an increase, the median is 10 percent, with the middle half between 5 and 15 percent.

As shown below, the 5-percent salary increase for 1985 is the same as for 1984.[1] It is also the same as the average increase in 1985 for all exempt employees. Average salary increases for the total exempt population are expected to remain at 5 percent in both 1986 and 1987.

Year	Number of Companies	Percentage Increase in Salary: Median	Middle 50 Percent Range
Total Exempt Employees			
1987 Estimate	41	5.0%	4.0% to 5.5%
1986 Estimate	43	5.0	4.0 to 6.0
1985 Actual	47	5.0	4.5 to 6.0
Chief Executive Officers			
1985	36	5%	0% to 12%
1984	46	5	0 to 14
1982–1983	48	4	0 to 14
1981–1982	52	8	0 to 12
1979–1981	34	27	15 to 43

[1]The 1984 changes are from *Top Executive Compensation 1986 Edition*. The Conference Board, Report No. 875, 1985, p. 76. The 1983 data are from *Top Executive Compensation 1985 Edition*. The Conference Board, Report No. 854, p. 69. The 1982 changes are from *Top Executive Compensation 1983 Edition*. The Conference Board, Report No. 840, p. 62. The 1979-1981 changes are from *Top Executive Compensation 1982 Edition*. The Conference Board, Report No. 827, 1982, p. 63. The 1977-1979 changes are from *Top Executive Compensation 1980 Edition*. The Conference Board, Report No. 793, 1980, p. 66.

Chart 35: Compensation of the Chief Executive, by Company Sales



1985 Total Compensation

For each construction company, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 51 construction companies is shown in Chart 35. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown below:

Compensation Rank	1985 Total Compensation	
	Median	Middle 50 Percent Range
Highest paid	$264,000	$180,000 to $325,000
Second	175,000	119,000 to 243,000
Third	149,000	105,000 to 195,000
Fourth	124,000	82,000 to 166,000
Fifth	115,000	80,000 to 147,000

There is a positive relationship between the level of total compensation and sales volume, as the lines in Charts 36 and 37 indicate. However, the relationship is not very strong in the 35 closely held companies. As the coefficients of determination (r^2) below indicate, the variation in sales volume explains only 5 percent of the variation in total compensation for chief executives and, at most, 18 percent for the fifth highest paid.

Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.9623 + 0.1797 log X	5%
Second	log Y = 1.8430 + 0.1705 log X	6
Third	log Y = 1.8139 + 0.1436 log X	5
Fourth	log Y = 1.6484 + 0.1857 log X	10
Fifth	log Y = 1.5132 + 0.2209 log X	18

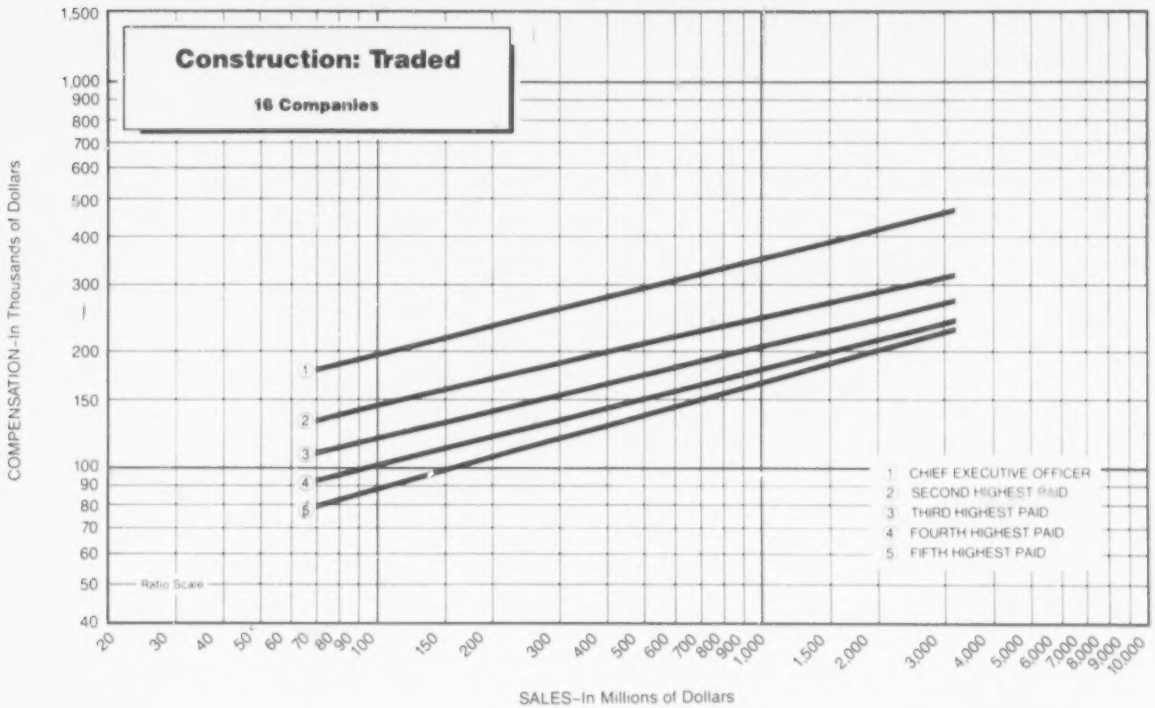
The regression equations for executives in 16 companies whose stock is publicly held are shown below. As the coefficients of determination indicate, sales volume explains a much higher proportion of this variation in total compensation than for closely held contractors.[2]

[2]The regression equations for the five executives when all companies are combined are shown below; the percent in parentheses is the coefficient of determination.

Highest paid	log Y = 1.8889 + 0.2146 log X	(20%)
Second	log Y = 1.7761 + 0.2017 log X	(21%)
Third	log Y = 1.7076 + 0.1948 log X	(23%)
Fourth	log Y = 1.5535 + 0.2317 log X	(31%)
Fifth	log Y = 1.4344 + 0.2591 log X	(42%)

In each case, Y is total compensation stated in *thousands* of dollars; X is sales volume stated in *millions* of dollars

Chart 36: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.8190 + 0.2419 log X	32%
Second	log Y = 1.6963 + 0.2315 log X	35
Third	log Y = 1.6234 + 0.2292 log X	39
Fourth	log Y = 1.4865 + 0.2599 log X	49
Fifth	log Y = 1.3984 + 0.2823 log X	58

The ratio of the total compensation of each executive to the total compensation of the chief executive officer is shown below:

Compensation Rank	*Total Compensation as a Percentage of Chief Executive's Total Compensation*	
	Median	*Middle 50 Percent Range*
Second highest	78%	60% to 86%
Third highest	60	48 to 69
Fourth highest	52	39 to 65
Fifth highest	47	35 to 58

These ratios are essentially the same among publicly held contractors and those whose stock is not traded.

1985 Salary

There is a positive relationship between base salary and sales volume. The regression equations for executives in the 16 companies whose stock is publicly held are shown below. As the coefficients of determination (r^2) indicate, variation in sales volume statistically explains 26 to 65 percent of the variation in base salary.

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.8452 + 0.1918 log X	26%
Second	log Y = 1.6196 + 0.2293 log X	40
Third	log Y = 1.5308 + 0.2322 log X	59
Fourth	log Y = 1.4404 + 0.2463 log X	61
Fifth	log Y = 1.3595 + 0.2649 log X	65

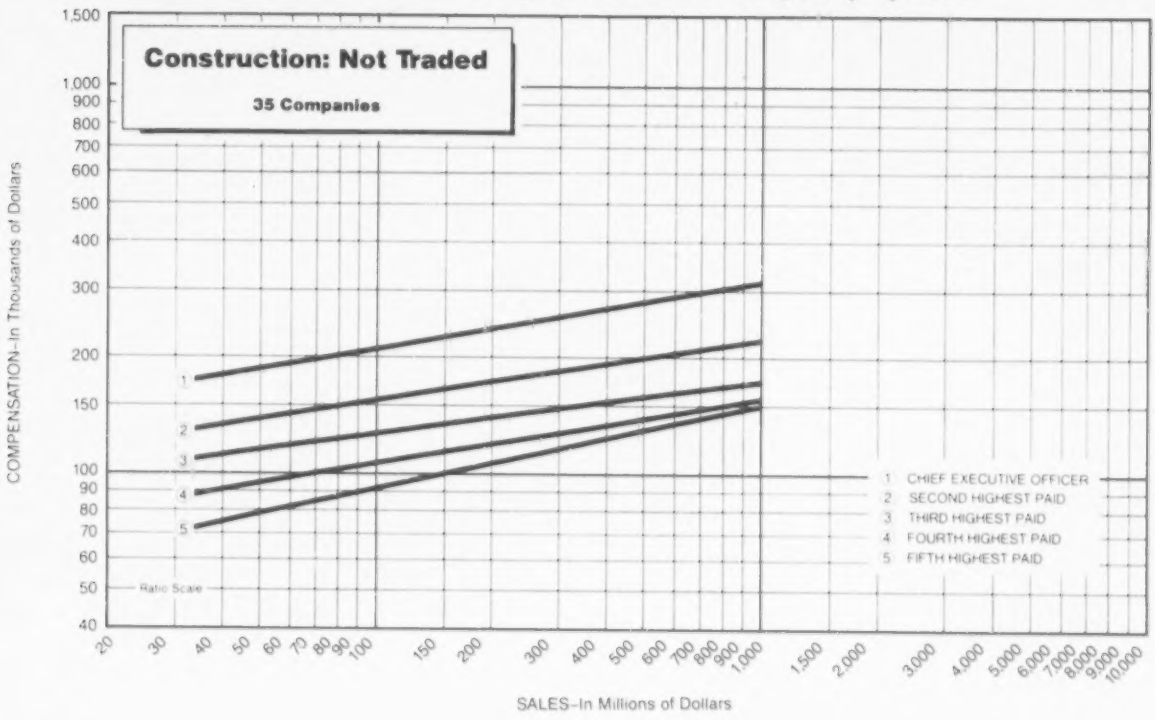
The regression equations for the executives in the 35 companies whose stock is not traded are shown below. The coefficients of determination indicate that for this group the variation in sales volume statistically explains, at most, 38 percent of the variation in salary and, for the chief executive officer, only 14 percent.[1]

[1]The regression equations for the five executives when all companies are combined are shown below; the percent in the parentheses is the coefficient of determination.

Highest paid	log Y = 1.7062 + 0.2322 log X	(30%)
Second	log Y = 1.5526 + 0.2462 log X	(36%)
Third	log Y = 1.4158 + 0.2682 log X	(51%)
Fourth	log Y = 1.3328 + 0.2783 log X	(58%)
Fifth	log Y = 1.2833 + 0.2830 log X	(57%)

In each case Y is salary stated in *thousands* of dollars and X is sales volume stated in *millions* of dollars.

Chart 37: Compensation of the Five Highest Paid Executives, by Company Sales



Compensation Rank	Regression Formula	r^2
Highest paid	log Y = 1.7279 + 0.2159 log X	14%
Second	log Y = 1.5959 + 0.2215 log X	16
Third	log Y = 1.4024 + 0.2707 log X	32
Fourth	log Y = 1.3411 + 0.2700 log X	38
Fifth	log Y = 1.3451 + 0.2485 log X	31

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

	Salary as a Percentage of Chief Executive's Salary	
Compensation Rank	Median	Middle 50 Percent Range
Second highest	78%	62% to 92%
Third highest	61	52 to 79
Fourth highest	59	49 to 67
Fifth highest	51	44 to 61

These ratios are practically the same as the total compensation ratios.

1985 Bonus Awards

Forty-three (84 percent) of the 51 construction companies have an **annual executive bonus plan**; that is, a plan that pays a year-end bonus based on that year's corporate performance. Thirteen of the 16 publicly held contractors have a plan as do all but five of the 35 privately owned firms. The high incidence of an annual bonus plan in this sector was apparent in 1978 when 82 percent reported a plan.[4]

Thirty-two of the 43 contractors with a bonus plan made an award for 1985 performance; 33 paid a bonus for 1984. Among the 32 plans that paid a 1985 bonus, 30 also paid a 1984 bonus. Among 11 companies that paid no bonus for 1985, three paid a 1984 bonus; eight paid no bonus in either year.

As Table 12 indicates, the median award for chief executive officers (41 percent of salary) is higher than that of the other four executives (29 to 32 percent of salary). Compared with bonus awards for 1984, the 1985 medians are somewhat lower except for the fifth highest paid executive.[5]

Long-term Incentive Plans

Four (25 percent) of the 16 contractors whose stock is traded have a **restricted stock plan** under which contingent grants of company stock are made, subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. Eight of 23 companies

[4] *Top Executive Compensation 1978 Edition*, p. 77.

[5] *Top Executive Compensation 1986 Edition*, p. 79.

Table 12: 1985 Bonus Awards and 1984 Median Bonus

1985 Bonus Award	*Chief Executives*		*Second Highest Paid*		*Third Highest Paid*		*Fourth Highest Paid*		*Fifth Highest Paid*	
(Percent of Salary)	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*	*Number*	*Percent*
100% or more	6	19%	4	13%	3	10%	1	3%	1	3%
75–99	3	10	5	16	3	10	3	10	2	7
50–74	3	10	2	7	3	10	3	10	4	13
40–49	5	16	3	10	4	13	2	7	4	13
30–39	3	10	4	13	3	10	5	16	6	19
20–29	5	16	5	16	6	19	6	19	7	23
Less than 20%	6	19	8	26	9	29	11	36	7	23
Total	31	100%	31	100%	31	100%	31	100%	31	100%
Median Bonus	41%		32%		31%		29%		31%	
Middle 50% Range	24–90%		17–78%		17–51%		16–42%		14–51%	
1984 Median Bonus	**45%**		**35%**		**33%**		**30%**		**29%**	

reported a plan four years ago.[6] Only one company made a grant during 1985.

Four of the 51 companies have an executive incentive plan based on the achievement of long-term corporate financial goals, usually called a **performance share or performance unit plan**.[7] In 1982, three of 70 companies reported a plan.[8] No payments were made during 1985.

Nine of the 16 publicly held companies have a **stock option plan**.[9] Three of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's; and four only nonqualified options.

Four of the nine publicly held companies with a plan made a regular grant of stock options during 1985. Two of the plans granted *only* ISO's; one *only* nonqualified options; and one granted *both* ISO's and nonqualified options. The plan that granted both ISO's and nonqualified options did not limit nonqualified options to those executives who reached the $100,000 limit on ISO grants.

All of the four publicly held companies that granted options in 1985 provided information about the value of the options for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 20 executives is the equivalent of 71 percent of base salary, with the middle half ranging between 28 and 90 percent of 1985 base salary.

Stock-for-stock exercise (stock swaps) is provided for by four of the five plans that grant ISO's, and by four of the seven plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by three of the five plans that grant ISO's. All limit SAR's to a small group of top executives (essentially, "insiders"). SAR's are provided by two of the seven plans that grant nonqualified options. One limits SAR's to a small group of top management.

[6] *Top Executive Compensation 1982 Edition*, p. 64. For an analysis of 91 plans, see Harland Fox, *Restricted Stock for Executives*. The Conference Board, Research Bulletin, No. 159, 1984.

[7] For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[8] *Top Executive Compensation 1980 Edition*, p. 65.

[9] For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.

Chapter 9
Diversified Service

INFORMATION ABOUT THE 1985 compensation of their five highest paid executives was obtained from 23 of the 100 largest diversified service companies. This is the first time this group of companies has been surveyed for this purpose by The Conference Board. Diversified service may include energy services, general business services, health care, broadcasting, hotel chains and entertainment chains. The 23 companies are classified below according to 1985 sales volume.

1985 Sales	*Companies* Number	Percent
$5 billion and over	3	14%
2–4,999 billion	6	26
1–1,999 billion	7	30
500–999 million	7	30
Total	23	100%

Median sales is $1.5 billion, with the middle half ranging between $850 million and $4.2 billion.

1985 Total Compensation

For each company, compensation data were obtained for the five highest paid executives, without regard to title or function. As a rule, the highest paid executive is the chief executive officer and the second highest paid is the chief operating officer.

The 1985 *total compensation* of each of the five highest paid executives in each company is measured as the sum of 1985 salary and 1985 bonus award. The total compensation paid to each of the chief executive officers in this sample of 23 companies is shown in Chart 38. The median and middle 50-percent range of the pay of these chief executive officers and the other four executives are shown here:

Compensation Rank	*1985 Total Compensation* Median	Middle 50 Percent Range
Highest paid	$550,000	$450,000 to $637,000
Second	388,000	308,000 to 425,000
Third	284,000	255,000 to 346,000
Fourth	251,000	221,000 to 275,000
Fifth	228,000	185,000 to 268,000

As the lines in Chart 39 show, there is a positive relationship between the level of total compensation and sales volume for all five executives. The correlation coefficients for the five lines are, respectively: .60, .53, .53, .51, and .55.

The regression lines on the chart can be used to determine the average compensation of an executive at any level of sales volume, either by a direct reading from the chart or by using the regression formulas below. (In these formulas, Y is total compensation stated in *thousands* of dollars, and X is sales volume stated in *millions* of dollars.)

Compensation Rank	*Regression Formula*	r^2
Highest paid	$\log Y = 1.8667 + 0.2752 \log X$	37%
Second	$\log Y = 1.6210 + 0.2964 \log X$	28
Third	$\log Y = 1.5431 + 0.2910 \log X$	28
Fourth	$\log Y = 1.6265 + 0.2397 \log X$	26
Fifth	$\log Y = 1.5023 + 0.2622 \log X$	30

Although total compensation and sales volume are related, company size is not the sole determinant of compensation level. As the coefficients of determination (r^2), above indicate, the variation in sales volume statistically explains 26 to 37 percent of the variation in total compensation of the five top-paid executives. (This coefficient is the square of the correlation coefficient.)

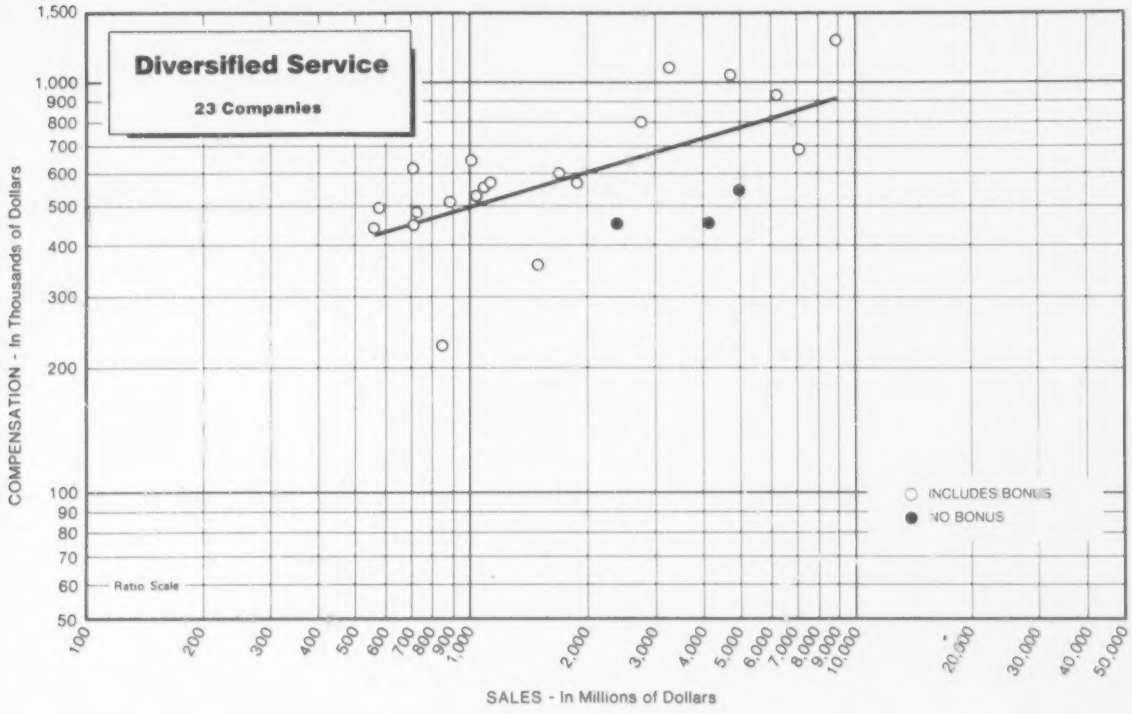
The ratio of the total compensation of each executive to that of the chief executive officer is shown below:

Compensation Rank	*Total Compensation as a Percentage of Chief Executive's Total Compensation* Median	Middle 50 Percent Range
Second highest	68%	58% to 73%
Third highest	54	46 to 63
Fourth highest	45	39 to 51
Fifth highest	42	33 to 44

1985 Salary

There is also a positive relationship between base salary and sales volume. The regression equations for the five top-paid executives are shown below. (Y is salary stated in *thou-*

Chart 38: Compensation of the Chief Executive, by Company Sales



sands of dollars; X is sales volume stated in *millions* of dollars.)

Compensation Rank	*Regression Formula*	r^2
Highest paid	log Y = 1.7856 + 0.2567 log X	61%
Second	log Y = 1.7698 + 0.2472 log X	38
Third	log Y = 1.5652 + 0.2472 log X	46
Fourth	log Y = 1.6621 + 0.1933 log X	33
Fifth	log Y = 1.6162 + 0.2001 log X	31

As the coefficients of determination (r^2) above indicate, the variation in sales volume statistically explains 31 to 61 percent of the variation in base salary.

The ratio of the salary of each executive to the salary of the chief executive officer is shown below:

	Salary as a Percentage of Chief Executive's Salary	
Compensation Rank	*Median*	*Middle 50 Percent Range*
Second highest	68%	63% to 74%
Third highest	60	48 to 65
Fourth highest	45	44 to 51
Fifth highest	44	37 to 54

These ratios are very close to the total compensation ratios.

1985 Bonus Awards

Twenty-one of the 23 companies have an annual executive bonus plan that pays a year-end bonus based on that year's corporate performance. Nineteen of the 21 companies with a bonus plan made an award for 1985 performance; 19 also paid a bonus for 1984.

Among the 19 companies that paid a 1985 bonus, 18 also paid an award for 1984. Among the 2 companies that paid no bonus for 1985, one paid a 1984 bonus and one paid no bonus in either year.

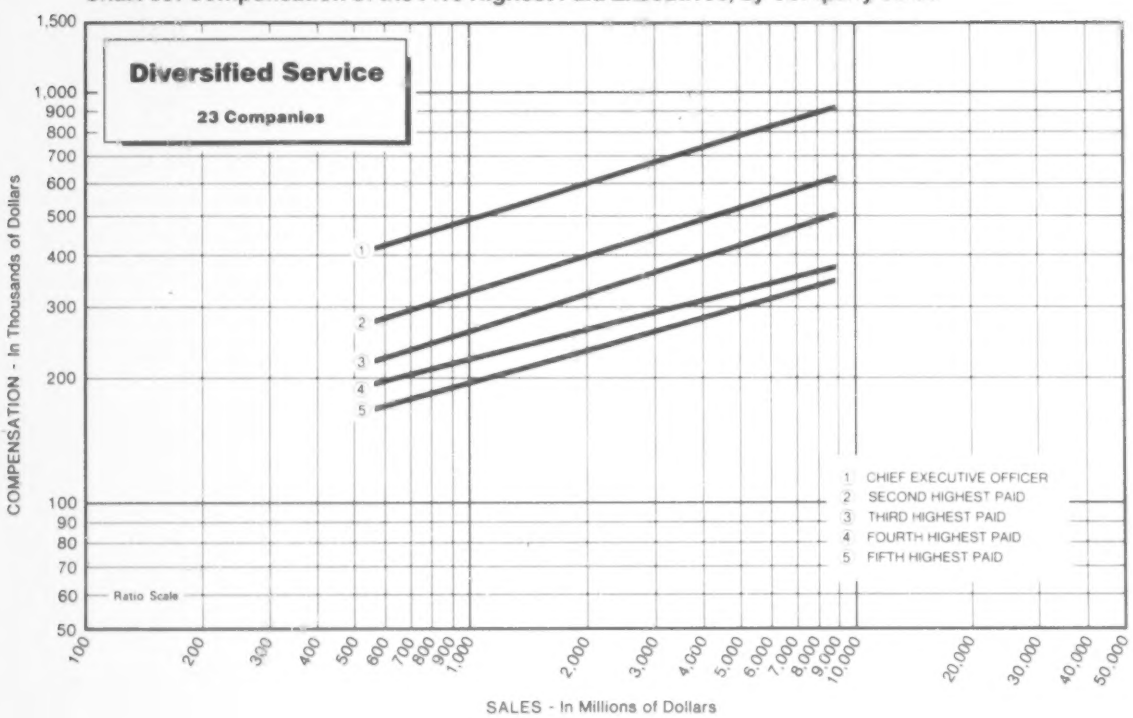
The 1985 bonus awards as a percent of 1985 salary for the five highest paid executives in the 19 companies that paid a bonus are shown below:

	1985 Bonus Awards (Percent of Salary)				
	Chief Executives	*Second Highest Paid*	*Third Highest Paid*	*Fourth Highest Paid*	*Fifth Highest Paid*
Number of Executives	19	19	19	19	18
Median Bonus	50%	45%	42%	37%	34%
Middle 50% Range	38-72%	31-55%	36-51%	26-55%	25-46%

Long-term Incentive Plans

Six of the 23 companies have a **restricted stock plan** under which contingent grants of company stock are made,

Chart 39: Compensation of the Five Highest Paid Executives, by Company Sales



subject to restrictions and forfeitures, until earned out by continued employment over a specified period of time. Three companies made a grant during 1985. The median award for 13 executives was the equivalent of 71 percent of 1985 salary.

Twelve of the 23 companies have an executive incentive plan based on the achievement of long-term corporate financial goals, and usually called a **performance share or performance unit plan**.[1] Four companies made a payment to one or more of their five top-paid executives during 1985. The payments to 13 executives, converted to a percentage of salary, ranged from less than 1 to 66 percent; the median payment represented 23 percent of 1985 salary.

All 23 of the companies have a **stock option plan**.[2] Eighteen of these plans provide for grants of *both* incentive stock options (ISO's) and nonqualified options; two grant only ISO's; and three have only nonqualified options.

Eighteen of the companies with a plan made a regular grant of stock options during 1985. One of the plans granted *only* ISO's; six *only* nonqualified options; and 11 granted *both* ISO's and nonqualified options. Among the 11 plans that granted both ISO's and nonqualified options, eight limited nonqualified options to those executives who reached the $100,000 limit on ISO grants.

All 18 companies that granted options in 1985 provided information about the value of the option for one or more of their five top-paid executives. (The value of an option is the number of shares multiplied by the market price at the time of grant.) The median value of options for 78 executives is the equivalent of 87 percent of base salary, with the middle half ranging between 58 and 137 percent of 1985 salary.

Stock-for-stock exercise (stock swaps) is provided for by 14 of the 20 plans that grant ISO's, and by 13 of the 21 plans that grant nonqualified options.

Stock appreciation rights (SAR's) are provided by seven of the 20 plans that grant ISO's. Five of these limit SAR's to a small group of top management (essentially "insiders"); two grant SAR's to all option recipients. SAR's are provided by nine of the 21 plans that grant nonqualified options; six limit SAR's to a small group of top executives; three grant SAR's to all nonqualified option recipients.

[1]For an analysis of 89 plans, see Harland Fox, *Executive Incentives: Long-term Performance Share/Unit Plans*. The Conference Board, Research Bulletin No. 132, 1983.

[2]For an analysis of 189 ISO plans, see Harland Fox, *Incentive Stock Option Plans*. The Conference Board, Research Bulletin No. 148, 1983.